RIO ALGOM

1997 ANNUAL REPORT

CORPORATE PROFILE

Rio Algom Limited is a growing, international, mining and metals distribution company with headquarters in Toronto, Canada.

Rio Algom currently produces copper, molybdenum, gold, uranium and coal from mines in Canada, the United States, Chile and Argentina. A mine expansion in Chile and copper and copper-zinc projects at the pre-feasibility and feasibility stages in Chile and Peru, respectively, have the potential to increase the company's annual copper production to in excess of one billion pounds. This would make Rio Algom Canada's premier copper mining company.

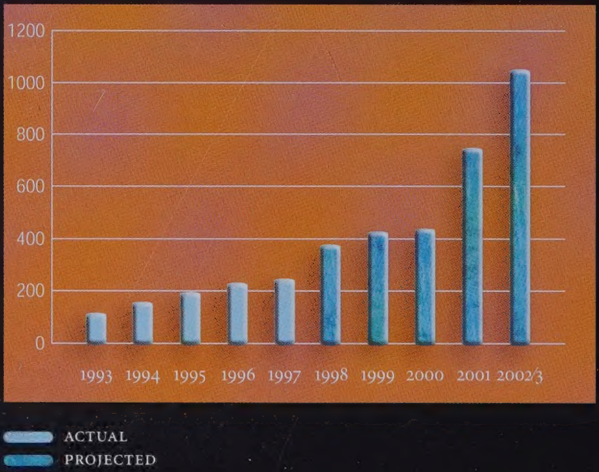
Rio Algom also owns and operates one of North America's foremost metals distribution businesses. With 52 centres serving more than 50,000 customers, the North American Metals Distribution Group, through Vincent Metal Goods in the United States and Atlas Alloys Inc. in Canada, is one of the largest distributors of stainless steel and aluminum on the continent.

Rio Algom's common stock is widely held and trades under the symbol "ROM" on the Toronto and Montreal stock exchanges in Canada and on the American Stock Exchange in the United States.

Cover: Jorge Hidalgo, Mine Shift Foreman, on left, and Guillermo Urrutia, Mine Superintendent, discuss progress of mine expansion at Cerro Colorado.

CREATING

COPPER PRODUCTION
(millions of pounds)



1997 at a glance

January

Rio Algom announced a major, wholly owned, copper discovery, the Spence deposit, in northern Chile.

February

The company raised $500 million through an issue of convertible debentures and 4.4 million common shares and arranged a US$500 million unsecured revolving 5-year line of credit.

In Peru, interim drilling results increased resources to 400 million tonnes and prompted a decision to proceed with a full feasibility study for the Antamina copper-zinc deposit.

March

The Prospectors and Developers Association of Canada recognized Rio Algom's reclamation work at Elliot Lake with a special environmental award.

growth

June

Patrick M. James joined Rio Algom as President and Chief Executive Officer. He was previously Chairman, President and Chief Executive Officer of Santa Fe Pacific Gold Corporation.

July

The continuing drill program increased the Antamina resource to 500 million tonnes averaging 1.2% copper and 1.0% zinc.

October

Cerro Colorado received the 1996 national safety award as the safest mine in its class in Chile. The Cerro Colorado mine also won the award in 1994.

The first shipment of copper-gold concentrate from the Bajo de la Alumbrera mine in Argentina left the project's port facility, bound for Japan. The mine's first gold bar was poured on October 26.

December

The Smith Ranch *in situ* uranium leaching operation in Wyoming achieved commercial production.

FINANCIAL highlights

	1997	1996	% increase (decrease) 97/96	1995	1994	1993	Five year average change (%)
PROFITABILITY ($ MILLIONS)							
Revenue	**1,834**	1,833	-	1,982	1,109	847	16
Operating profit	**202**	170	19	250	143	34	23
Earnings from continuing operations	**83**	66	26	125	66	31	21
Earnings from discontinued operations	**-**	34		7	9	3	
Net earnings	**83**	100	(17)	132	75	34	11
Cash flow from continuing operations	**131**	75	75	189	71	82	13
FINANCIAL CONDITION ($ MILLIONS)							
Cash and short-term investments	**148**	224	(34)	314	386	308	
Short-term debt	**4**	8	(50)	-	5	21	
Long-term debt	**291**	408	(29)	441	287	229	
Total shareholders' equity	**1,632**	1,141	43	984	902	677	
Current ratio (1)	**2.8**	2.6		2.4	3.3	2.4	
Debt to debt plus equity (%)	**15**	26		31	24	27	
COMMON SHARE INFORMATION							
Common shareholders' equity ($ millions)	**1,356** (2)	1,141	43	984	902	651	17
Shares outstanding (millions)							
- end of year	**60.6**	56.0	8	52.1	52.0	43.7	7
- average	**60.1**	55.2	9	52.0	50.7	43.7	7
Share price ($)							
- high	**37.55**	32.25	16	29.63	27.13	22.75	15
- low	**23.75**	23.38	2	22.63	21.00	17.00	9
- close (Dec. 31)	**24.15**	30.60	(21)	25.38	26.75	22.38	6
Earnings per share ($)	**1.22**	1.82	(33)	2.55	1.48	0.73	5
Dividends per share ($)	**0.70**	0.70	-	0.60	0.60	0.60	-
Cash flow per share ($) (3)	**2.18**	1.50	45	4.03	2.23	3.00	(14)
Book value per share ($) (4)	**22.38**	20.38	10	18.89	17.35	14.90	9
Market capitalization ($ millions) (5)	**1,463**	1,714	(15)	1,322	1,391	978	11

(1) current assets divided by current liabilities

(2) excludes equity component of convertible debentures

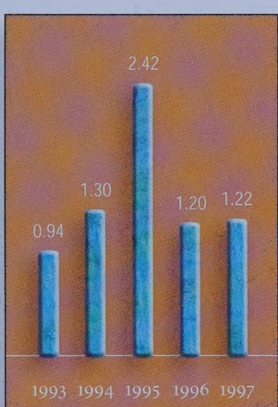
(3) cash flow from operations divided by the average number of common shares outstanding

(4) common shareholders' equity at December 31 divided by the number of shares outstanding at year end

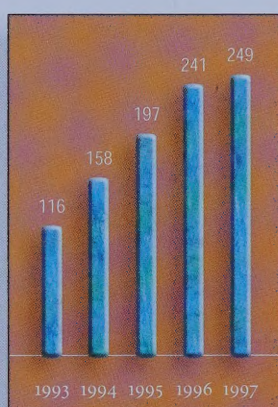
(5) closing share price at December 31 multiplied by the number of shares outstanding at year end

RIO ALGOM'S *overriding objective is to create superior, long-term value for shareholders. To achieve this objective, the company is pursuing an aggressive growth program in copper production (see inside front cover) supported by a strong balance sheet, quality assets and a record of 38 years of uninterrupted profits and dividend payments. A number of key measures are reviewed below to demonstrate the company's performance over the last five years.*

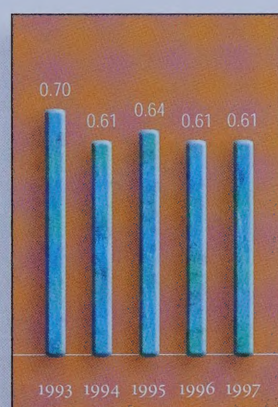
EARNINGS FROM CONTINUING OPERATIONS
($ per common share)



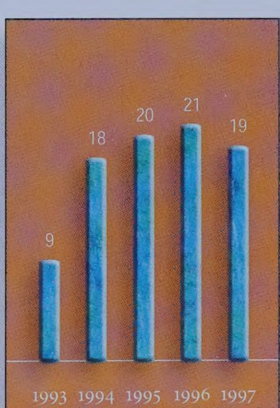
COPPER PRODUCTION
(millions of pounds)



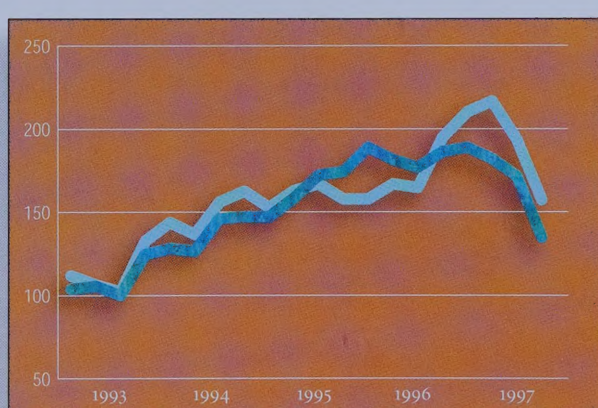
AVERAGE CASH COST
(US$ per pound of copper)



METALS DISTRIBUTION
(% return on capital employed)



FIVE-YEAR TOTAL RETURN
(% return on $100 invested on January 1, 1993 assuming reinvestment of dividends)



RIO ALGOM COMMON SHARES - 57.7%
TSE METALS AND MINERALS INDEX - 39.9%

If all the projects currently under development reach fruition, Rio Algom expects to quadruple annual copper production to over one billion pounds within the next five to six years. At the same time average cash costs should drop by 20% to below US$0.50 per pound. This would move the company's average cash costs to the lower third of the global cost curve.

Rio Algom had a good year in 1997. Earnings from continuing operations improved by 26%. Copper production increased and the metals distribution group generated solid returns, in spite of lower stainless steel and aluminum prices. Two new mines commenced production, and two other projects were advanced to the feasibility and pre-feasibility stages. In particular, the company reaffirmed its commitment to focus on growth in copper and other base metals as its strategy for growing the company and increasing shareholder value.

Rio Algom is committed to creating superior, long-term value for its shareholders. It seeks to accomplish this through the continuing acquisition, development and operation of quality assets which will generate positive returns throughout the price cycles that are normal for a commodity business. An integral part of the strategy is to maintain adequate financial resources and flexibility to support the company's growth initiatives. The company's longstanding record of prudent financial management has allowed successful funding of growth through project financing, cash flow and cash.

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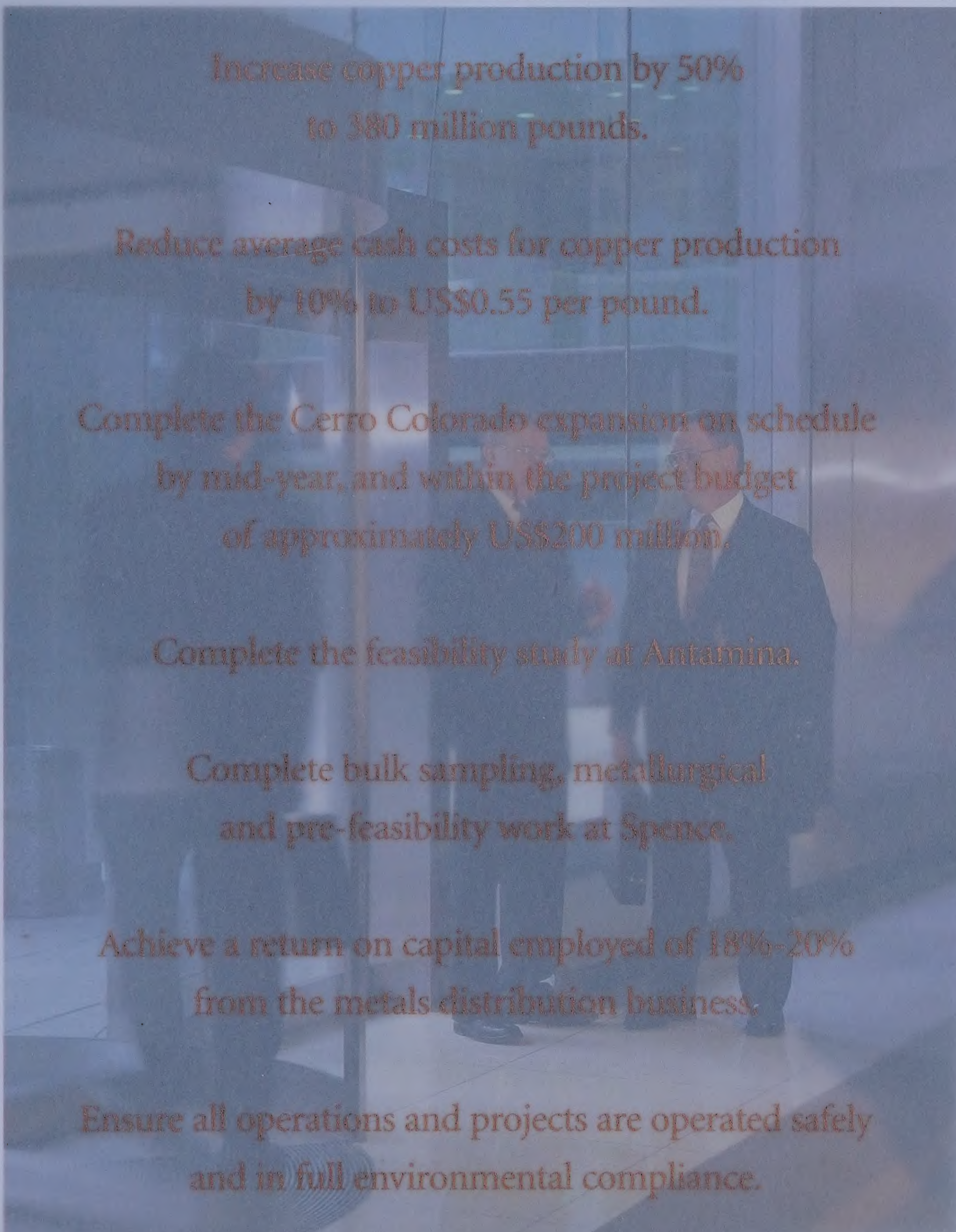
How did the company do in 1997 in moving towards its goals?

Total copper production amounted to 249 million pounds in 1997, 3% higher than in the previous year, while average cash costs were held flat at US$0.61 per pound.

The Cerro Colorado mine in Chile had a successful year, exceeding its production and cost targets. The expansion program, to add 90 million pounds of copper to annual production, is on schedule and on budget for completion in mid-1998 at a cost of approximately US$200 million. As a result, Cerro Colorado is expected to increase annual copper production to 220 million pounds by the year 2000, at an average cash cost of less than US$0.50 per pound.

In Argentina, the Bajo de la Alumbrera mine, in which Rio Algom has a 25% interest, shipped its first concentrate in October 1997. Destined to rank among the world's largest copper and gold mines, Alumbrera is expected to achieve commercial production during the first quarter of 1998, with average daily mill throughput planned to reach design capacity of 80,000 tonnes on a sustained basis by the end of March. Rio Algom's share of production is

OBJECTIVES for 1998



Increase copper production by 50% to 380 million pounds.

Reduce average cash costs for copper production by 10% to US$0.55 per pound.

Complete the Cerro Colorado expansion on schedule by mid-year, and within the project budget of approximately US$200 million.

Complete the feasibility study at Antamina.

Complete bulk sampling, metallurgical and pre-feasibility work at Spence.

Achieve a return on capital employed of 18%-20% from the metals distribution business.

Ensure all operations and projects are operated safely and in full environmental compliance.

GORDON C. GRAY
Chairman of the Board
(centre)

PATRICK M. JAMES
President and Chief Executive Officer
(on right)

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GORDON C. GRAY
Chairman of the Board
(centre)

PATRICK M. JAMES
President and Chief Executive Officer
(on right)

expected to average about 100 million pounds of copper and 160,000 ounces of gold annually. Cash costs, including gold credits, are expected to be in the US$0.40 per pound range, well within the lowest cost quartile of world copper producers. Total funding requirements, excluding financing costs, increased to US$1.2 billion during the year, because of additional pipeline construction and improvements to the tailings management and water recovery systems.

In Peru, drilling on the Antamina copper-zinc project increased the resource significantly and work began on the feasibility study. Rio Algom and Inmet Mining, partners in the project, have until September 1998 to complete the feasibility study and elect to proceed with development or return the property. Current plans call for a 70,000 tonnes per day operation which would contribute approximately 300 million pounds of copper and 180 million pounds of zinc annually to Rio Algom's production, over a 20-year mine life. Total capital costs, including financing and payments to Peru, are estimated to be in the range of US$2 billion.

Early in 1997, the company announced the discovery of a major copper deposit in northern Chile. Known as the Spence deposit, it represents a major success in Rio Algom's expanding exploration program. Extensive drilling to define and confirm the resource in the wholly owned deposit was completed in the third quarter. Results from this program are being used to prepare for pre-feasibility work in 1998. Spence could begin providing Rio Algom with 300 million pounds of copper annually as early as 2002, although the company has some flexibility in timing the development of this 100%-owned deposit, depending on the copper market and the outcome of the pre-feasibility work.

Copper is Rio Algom's current focus, but uranium continues to play a role in the company's operations. The Smith Ranch mine in Wyoming began operations in June 1997. Using innovative *in situ* leaching extraction techniques, this US$44 million project is scheduled to reach its design production rate of two million pounds of uranium annually in 1999. Further exploration is also in progress on the neighbouring Reynolds Ranch property, to assess its potential for production.

Metals Distribution

Complementing Rio Algom's mining operations, the company's metals distribution business is also a core asset with potential for growth. The North American Metals Distribution Group is consistently profitable and will be an important source of cash flow for Rio Algom's mining developments. In 1997, it provided 78% of Rio Algom's revenue, 38% of operating profit, and generated a 19% return on capital employed, despite declining stainless steel and aluminum prices. The business helps to stabilize Rio Algom's earnings and has substantial growth prospects through industry consolidation.

Environment, Health and Safety

Rio Algom is committed to achieving excellence in all aspects of its operations, including environmental protection, health and safety performance, from exploration to extraction to proper closure and restoration of old mines. Environmental protection and health and safety considerations are an integral part of the way the company does business. The goals in these areas include full environmental compliance at all operations, and accepting nothing less than an accident-free workplace.

During 1997 the company received a special environmental award from the Prospectors and Developers Association of Canada, in recognition of its ongoing reclamation activities at Elliot Lake.

In October, the Cerro Colorado mine was presented with the 1996 Chilean National Safety Award for the best safety record for mines with 100-1,000 employees. It was the second time that Cerro Colorado had received this honour in the three years it has been eligible.

Financial Highlights

Rio Algom's net earnings from continuing operations in 1997 were $83 million, up 26% from comparable earnings of $66 million in 1996. Earnings per common share were $1.22 in 1997, up from $1.20 on a comparable basis a year earlier. Total net earnings in 1996 of $100 million ($1.82 per common share) included $34 million from discontinued operations.

The improvement in earnings from continuing operations in 1997 was driven by higher average copper revenues and increased copper production, partially offset by the impact on the metals distribution group of lower prices for stainless steel and aluminum.

Revenue of $1.8 billion in 1997 was similar to the 1996 level.

Copper revenues averaged US$1.05 per pound in 1997 versus US$0.99 in 1996. Rio Algom's cash cost per pound of copper averaged US$0.61 in 1997, while the Cerro Colorado mine, which produced more than half of production, reduced its average cash cost to US$0.50 per pound from US$0.51 the previous year.

Capital expenditures increased to $255 million in 1997, compared to $77 million in 1996, primarily because of expenditures relating to the Cerro Colorado expansion, detailed drilling and development at Antamina, mine construction at Smith Ranch and the acquisition of water rights for the Spence project.

Rio Algom raised $500 million through an issue of convertible debentures and common shares early in 1997. Net proceeds of $308 million were received in February 1997 and a second instalment of $177 million was received in February 1998. The company also arranged a US$500 million unsecured revolving 5-year line of credit, and helped conclude the US$670 million project financing for Alumbrera, of which Rio Algom's share is 25%. In April 1997, the company paid off the Cerro Colorado project loan of $206 million, contributing to a 28% reduction in interest expense in 1997.

The Years Ahead

Our immediate objectives for Rio Algom are highlighted on these pages. They represent continuing progress in a longer-range plan. Rio Algom's primary goal remains to become Canada's premier copper mining company, and one of the world's top-tier producers.

Such a goal can only be achieved one measured step at a time. We have several projects in hand that are being advanced systematically. The project pipeline is well supplied, but there is capacity and appetite for more. Low metal prices often give rise to new opportunities, from grass roots to operating properties, and Rio Algom is prepared to consider them all.

Corporate Developments

Patrick M. James joined Rio Algom as President and Chief Executive Officer in June 1997, after 18 years with Santa Fe Pacific Gold Corporation, most recently as Chairman, President and Chief Executive Officer.

Arden R. Haynes retired from the board of directors in August. We thank him for his wisdom, humour and insight over many years of service.

We note with regret the death in July 1997 of Colin A. Macaulay, who retired as Vice-Chairman of Rio Algom at the end of 1996. He made a substantial contribution over his 32-year career with the company, and his passing saddens us all.

James D. Wallace of Sudbury, President of Pioneer Construction Inc., was appointed a director in January 1998, and will be proposed for election at the 1998 Annual Meeting.

In conclusion, the board extends its thanks to the Rio Algom employees who have contributed so much to the company's success in 1997. With the continuing support of all our stakeholders we look forward to achieving our goals.

Respectfully, on behalf of the board of directors,

GORDON C. GRAY
Chairman of the Board

PATRICK M. JAMES
President and Chief Executive Officer
February 11, 1998

RIO ALGOM operations

MINING

- Mining Properties
- * Exploration Offices

METALS DISTRIBUTION

- North American Metals Distribution Group

RIO ALGOM locations and operations

RIO ALGOM today

MINING	LOCATION	INTEREST HELD BY RIO ALGOM LIMITED	1997 PRODUCTION OR PROJECTED ANNUAL PRODUCTI
OPERATIONS			
Cerro Colorado *(copper)*	East of Iquique, Northern Chile	100% owned	133 million pounds of cathode copper 220 million pounds by 2000
Highland Valley Copper *(copper)*	Highland Valley area, British Columbia, Canada	33.6% partnership	116 million pounds of copper in concer 1.5 million pounds of molybdenum in Rio Algom's share
Smith Ranch *(uranium)*	Powder River Basin, Wyoming, United States	100% owned	65,000 pounds of uranium 2 million pounds of uranium by 1999
Bullmoose Coal *(metallurgical coal)*	Tumbler Ridge, British Columbia, Canada	29.1% joint venture	539,000 tonnes Rio Algom's share
Polaris *(zinc-lead)*	Little Cornwallis Island, (N.W.T.), Canadian Arctic	25% royalty interest	122,074 tonnes of zinc in concentrate a 27,078 million tonnes of lead in concer
DEVELOPMENT PROJECTS			
Bajo de la Alumbrera *(copper-gold)*	Northwestern Argentina	25% owned	96 million pounds of copper and 160,(of gold by 1998 Rio Algom's share
Antamina *(copper-zinc)*	Central Peru	50% interest	300 million pounds of copper and 180 pounds of zinc by 2002 Rio Algom's share
Spence Deposit *(copper)*	Northeast of Antofagasta, Northern Chile	100% owned	300 million pounds of copper by 2002,
Nicolet Minerals Company *(zinc)*	Crandon, Wisconsin	100% owned	
EXPLORATION			
Rio Algom Mining Corporation	Wyoming and New Mexico, United States	100% owned	
Rio Algom Exploration Inc.	Toronto, Vancouver and Val d'Or, Canada Mendoza, Argentina	100% owned	
Rio Algom Exploration Inc., Agencia en Chile	Santiago and Antofagasta, Chile	100% owned	
Rio Algom, Sucursal del Peru	Lima, Peru	100% owned	

METALS DISTRIBUTION	LOCATION	INTEREST HELD BY RIO ALGOM LIMITED	1997 SALES
North American Metals Distribution Group Service Centres: Atlas Alloys Inc. Vincent Metal Goods	Headquarters: Minneapolis, Minnesota 12 in Canada 40 in U.S.A.	100% owned	Combined sales were $1.4 billion

	RESERVES	RESOURCES
	216 million tonnes grading 1.01% copper	
e, and entrate	457 million tonnes grading 0.419% copper and 0.009% molybdenum	140 million tonnes grading 0.463% copper and 0.004% molybdenum
	23 million pounds of uranium	33 million pounds of uranium
	Sufficient to satisfy contractual obligations	
te	3.5 million tonnes grading 13.2% zinc and 3.6% lead	
ounces	675 million tonnes grading 0.53% copper, 0.66 grams per tonne gold	
ion		In-pit resource of 501 million tonnes averaging 1.2% copper, 1.0% zinc, 12 grams per tonne silver and 0.03% molybdenum
		In-pit resource of 306 million tonnes grading 1.1% copper
		55 million tonnes comprising 30 million tonnes grading 9.4% zinc and 0.4% copper, and 25 million tonnes grading 0.7% zinc and 1.8% copper
		53 million pounds of uranium
	ACTIVITIES	
	Warehousing, processing, distribution of a wide variety of products for industrial use. Principal processing activities include custom blanking, polishing, sawing, slitting and shearing	


BUILDING


growth

DEVELOPMENT PROJECTS

COPPER

Cerro Colorado Expansion

A major expansion of the Cerro Colorado mine in northern Chile's renowned porphyry copper belt represents the first step on Rio Algom's path toward total copper production of more than one billion pounds within the next five to six years. The expansion, initiated late in 1996, will increase the mine's annual production by 90 million pounds or 69% to 220 million pounds by 2000, and help reduce average cash costs to below US$0.50 per pound. It is expected to be completed on schedule in mid-1998, within the project budget of approximately US$200 million.

COPPER-GOLD

Alumbrera

The first shipment of concentrate from the Alumbrera copper-gold deposit in October 1997 marked the second step in Rio Algom's plan to grow copper production. The mine is expected to achieve commercial production during the first quarter of 1998, with average daily mill throughput planned to reach design capacity of 80,000 tonnes on a sustained basis by the end of March.

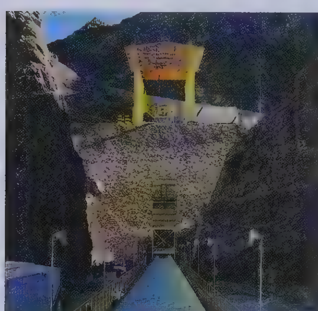
The Alumbrera mine is located in northwestern Argentina, at an elevation of 2,600 metres in the foothills of the Andes in Catamarca province, approximately 1,100 kilometres northwest of Buenos Aires. Rio Algom's 25% interest, acquired in 1995 shortly before mine construction began, is held through Minera Alumbrera Limited, which is the project operator under an agreement with Yacimientos Mineros de Agua de Dionisio, the property owner. M.I.M. Holdings Limited and North Limited, both of Australia,

The project pipeline is well supplied, but there is capacity and appetite for more.

Opposite: Gonzalo Jofre, Chief Mine Engineer, on left, and Jorge Hidalgo, Mine Shift Foreman, on site of new crusher at Cerro Colorado.
Previous page: Preparing an access road at the Antamina site.
Above: Rio Algom's share of annual production from the new Alumbrera mine will average 100 million pounds of copper and 160,000 ounces of gold.

hold interests of 50% and 25%, respectively, in Minera Alumbrera.

Destined to rank among the world's 10 largest copper mines and 15 largest gold mines, Alumbrera is expected to produce an average of 400 million pounds of copper in concentrate and 640,000 ounces of gold annually for 20 years. Rio Algom's annual share will average 100 million pounds of copper and 160,000 ounces of gold. Cash



Alumbrera, with a planned mine life of 20 years, is expected to be among the world's largest copper and gold mines.

costs are forecast to be in the US$0.40 per pound range after byproduct credits.

A classic porphyry copper deposit, Alumbrera employs conventional open pit mining and copper concentration methods. Ore is crushed and ground and copper concentrates are produced by the flotation process. Free gold is recovered by gravity methods. Copper concentrate from the mill is pumped through a 316-kilometre pipeline to a filter plant near Tucuman, where the water is removed. The concentrate is then transported 830 kilometres by rail to a new port facility near Rosario. By the end of 1997, 100,000 tonnes of concentrate containing 66 million pounds of copper had been produced.

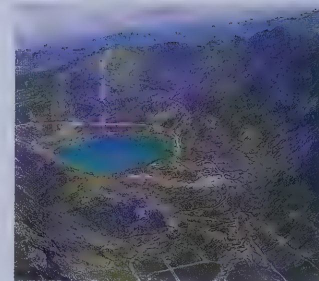
At the end of 1997, Alumbrera's reserves were 675 million tonnes averaging 0.53% copper and 0.66 grams of gold per tonne.

Total funding requirements to place Alumbrera into production, comprising capital costs, working capital and refundable value-added tax payments, are expected to be US$1.2 billion, excluding financing costs. Several factors contributed to the increase in the estimated cost during the year, including re-routing of the pipeline to avoid the effects of flash flooding and improvements to the tailings management and water recovery systems identified during pre-commissioning.

COPPER-ZINC
Antamina

The feasibility study for the Antamina copper-zinc project in Peru is scheduled for completion in March 1998. Rio Algom and Inmet Mining Corporation, its partner in the project, have until September 1998 to elect to proceed with development or return the property.

An intensive drilling program completed on the high-grade deposit during 1997 was successful in confirming and expanding resources. As a result, in-pit diluted resources are estimated to



Antamina could provide Rio Algom with 300 million pounds of copper and 180 million pounds of zinc annually.

be 501 million tonnes averaging 1.2% copper, 1.0% zinc, 12 grams per tonne silver and 0.03% molybdenum.

The Antamina project is located in the Andes 480 kilometres northeast of Lima at an altitude of 4,200 metres. The joint bid for the property by Rio Algom and Inmet Mining accepted in July 1996 requires an investment commitment of US$2.5 billion by 2001 if the companies proceed. If the total development costs are less than US$2.5 billion, Rio Algom and Inmet would pay 30% of the shortfall to the Government of Peru in lieu of further expenditures. Currently, overall development costs are projected to be in the range of US$2 billion, including the shortfall payment.

The feasibility study has included geological modelling, preparation of a mine plan, extensive metallurgical testing, preliminary design of tailings facilities, studies of infrastructure and port facilities, an environmental impact assessment, and considerable research into the socio-economic impact the development would have on local communities.

If development proceeds as currently envisaged, an open pit mine and 70,000 tonnes per day concentrator will be constructed. Rio Algom's 50% share of annual production beginning in 2001 would average more than 300 million pounds of copper and 180 million pounds of zinc in concentrates for approximately 20 years.

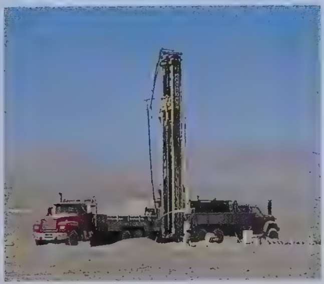
COPPER

Spence

Discovered by company geologists, the Spence deposit is located on claims wholly owned by Rio Algom at an elevation of 1,700 metres between the Chilean cities of Antofagasta on the coast and Calama.

During 1997, a detailed drilling program was initiated to upgrade the inferred resource. By early 1998 the Spence deposit was estimated to contain measured, indicated and inferred in-pit resources of 306 million tonnes grading 1.1% copper.

Also in 1997, significant water rights were acquired and permitting initiated.



Detailed drilling at the Spence copper deposit in 1997 was successful in confirming resources.

In 1998 the Spence program will focus on bulk sampling and metallurgical testing, with the objective of having pre-feasibility work completed by the end of the year.

Based on initial studies, it appears the deposit will be amenable to open pit mining and conventional metallurgical treatment, with the potential to produce 300 million pounds of copper in concentrate per year. Both heap leaching and flotation are being reviewed as processing options, since the deposit contains both oxide and sulphide zones.

ZINC

Nicolet

Early in 1998, Rio Algom became the 100% owner and operator of a zinc-copper deposit near Crandon, Wisconsin. Previously its interest in the deposit was held through a 50:50 joint venture with Exxon Coal and Minerals. The purchase price was US$17.5 million, plus an additional US$5 million payable on start-up of the operation and a net profits royalty of approximately 2.5% depending on zinc prices.

A new entity was established to develop and operate the project. Nicolet Minerals Company is named after Jean Nicolet, a French-Canadian explorer who in 1634 became one of the first men of European extraction to see Lake Michigan and stand on Wisconsin soil.

It is anticipated that all the necessary state and federal permits for the project will be issued within two to three years. Construction could begin shortly thereafter and take about three years. The project has the potential to produce approximately 330 million pounds of zinc in concentrate annually.

MINERAL EXPLORATION

With advanced exploration and development projects in the pipeline, Rio Algom continues to seek further opportunities for company growth through a focused and consistent mineral exploration program.

In 1997, Rio Algom spent $26 million on exploration, almost double the $14 million spent in 1996. The increase was largely because of the detailed diamond drilling program conducted on the Spence deposit.

Rio Algom's targets for growth are large tonnage, low-cost deposits, primarily of copper and zinc. For several years the company has concentrated much of its work in Chile. More recently it has been active elsewhere in South America, in Argentina's porphyry belt, in Peru and in Brazil, as well as in North America and in Ireland. New opportunities are also being investigated in Mexico, Europe and Africa. The company's exploration budget for 1998 is expected to be approximately $15 million.

SUPPORTING


growth

MARKET OVERVIEW

COPPER: Trends and Implications

The most significant factor influencing Rio Algom's profitability is the price of copper. Copper mining accounted for 56% of the company's operating profit in 1997, and 90% of operating profit from mining operations.

Spot copper prices soared to a peak of US$1.23 per pound during the first half of 1997 as supply disruptions, strong demand and inventory restocking produced a market deficit of approximately 100,000 tonnes. Later, prices fell as the market moved into surplus, ending the year at US$0.78 per pound. Bearish conditions were driven by concern over Asian economic problems, reduced demand and an increase in London Metal Exchange (LME) inventories.

For the full year, Western World refined copper production increased by 7.2%, to 10.8 million tonnes, while consumption was up 3.4%, to 11.1 million tonnes. The market balance at December 31, 1997, was a surplus of approximately 400,000 tonnes. The average LME spot price for 1997 was US$1.03 per pound versus US$1.04 per pound in 1996.

Going forward, volatility could result from uncertainty over Asian economic and currency problems, future purchases by the Chinese Strategic Reserve Bureau and the rate of economic expansion in the Western World. In addition, supply may be significantly influenced by the following: new projects coming on stream; the natural attrition of depleted mines; the impact of unfavourable market conditions on output from existing operations; and copper scrap availability.

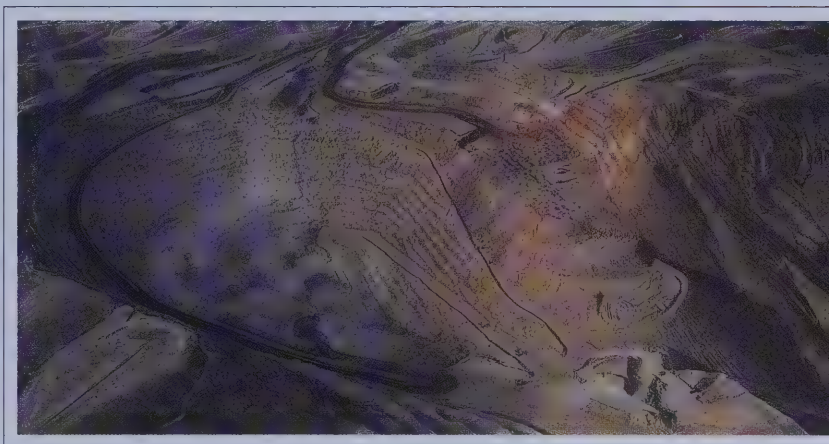
For producers such as Rio Algom, volatile market conditions emphasize the importance of finding, developing and operating high quality, low cost, assets. Under such conditions, competitive advantage swings to producers with relatively low costs who can continue to operate profitably while a market balance is re-established. Growth in this environment makes sense if it increases production at the same time as it moves the company down the cost curve. This can be accomplished either by adding new, low-cost projects or by realizing greater economies of scale at existing operations.

MINING OPERATIONS

COPPER

Cerro Colorado

Rio Algom's wholly owned Cerro Colorado mine in northern Chile was the company's first 100%-owned mining operation outside North America. It was also one of the first operations to achieve success with the bacterial leaching and solvent extraction and electrowinning (SX-EW) processes on a large commercial scale.



The open pit operation is located in the Atacama Desert, 120 kilometres east of the port city of Iquique, at an altitude of 2,600 metres. It produces finished cathode copper by exposing crushed ore to bacterial leaching and the SX-EW process. Cerro Colorado began production in 1994, completing its first expansion the following year, when annual production capacity was increased by 50% to its current level of 130 million pounds of cathode copper.

In 1997, the mine exceeded its targets for the year, producing 133 million pounds of copper compared to 131 million pounds in 1996, and decreasing average cash costs to just under US$0.50 per pound, compared to US$0.51 per pound in 1996. The current expansion program will increase annual production to 220 million pounds of copper by 2000, and is expected to reduce average cash costs still further.

Continuing improvements to the leaching process increased average copper recovery to 76% in 1997, compared to 69% in 1996 and 60% in 1995. Optimization at the electrowinning plant contributed to higher production.

Successful labour negotiations resulted in a 3-year agreement covering 231 employees being signed in October 1997. During the year Cerro Colorado

Today's operations are the springboard for tomorrow's growth.

Previous page: David Castillo, EW Operator, on left, and Martin Adaros, Camp Inspector, in the Cerro Colorado Electrowinning (EW) facility where copper cathodes are produced.
Above: Annual copper production at Cerro Colorado will increase to 220 million pounds by 2000.


CATERPILLAR
172

Copper cathodes at Cerro Colorado are stacked for shipping to overseas destinations.

became one of the first mining companies in Chile to introduce a pension plan covering both union and non-union employees. At the end of 1997 the 69% capacity expansion was about 40% complete.

Cerro Colorado's proven and probable reserves, estimated to be 216 million tonnes grading 1.01% copper at the end of 1997, are expected to support mining operations at the expanded rate of production for the next 18 years. During the year, reserves were reduced by the 5.5 million tonnes mined. No exploration drilling was carried out in 1997.

Highland Valley Copper

One of North America's largest copper mines, Highland Valley Copper is located near Kamloops in south-central British Columbia, Canada. The operation's Valley and Lornex open pits supply ore to one of the largest copper concentrators in the world, which operated at an average rate of approximately 123,000 tonnes per day. Rio Algom has a 33.6% partnership interest in Highland Valley Copper, and shares equally in its management with Cominco Ltd.

Opposite: Loading an ore truck in the Cerro Colorado pit.

In 1997 Cerro Colorado was presented with the Chilean National Safety Award for the best safety record in 1996 among mines with 100-1,000 employees. This is the second time the mine has received this honour.

In 1997 the company's share of production was 116 million pounds of copper and 1.5 million pounds of molybdenum in concentrate, compared to 110 million pounds of copper and 988,000 pounds of molybdenum in 1996. The increase resulted from record mill availability and copper recoveries.

Ore from the Highland Valley Copper pits is processed in one of the world's largest concentrators.

Proven and probable reserves at the end of 1997 were 457 million tonnes averaging 0.419% copper and 0.009% molybdenum compared to the 1996 year-end estimate of 496 million tonnes of similar grade.

URANIUM

Rio Algom's uranium activities in the United States are conducted by wholly owned subsidiary Rio Algom Mining Corp., which employed 119 people at the end of 1997. The long-term objective of the US uranium operations is to develop or acquire reserves which will support total production of at least four million pounds of uranium (U_3O_8) annually by 2003.

Smith Ranch

Commercial production of uranium from the US$44 million Smith Ranch project near Casper in northeast Wyoming began in December 1997. The mine is expected to produce one million

pounds of uranium in 1998 and reach its design production rate of two million pounds per year in 1999.

Commercial production of uranium from the US$44 million Smith Ranch project near Casper in northeast Wyoming began in December 1997.

Smith Ranch uses *in situ* leaching technology to extract uranium from permeable uranium-bearing sandstones located approximately 200 metres below surface. During the process, an environmentally benign mining solution, formed by adding carbon dioxide and oxygen to groundwater, is pumped through injection wells into the ore zone where it dissolves the uranium. Another series of wells pumps the resulting solution to surface where uranium is recovered by the ion exchange process. This means of extraction has much less environmental impact and generally lower capital and operating costs than more traditional mining methods. When in full production, cash costs are expected to be around US$12 per pound.

At Smith Ranch, from left, Jim Ballard, Surveyor, Bill Ferdinand, General Manager, and Joe D'Oliveira, Manager of Drilling.

Production from Smith Ranch in 1997 amounted to 65,000 pounds of uranium, less than planned because of one month's delay in start-up, a shortage of contractors to drill wells in the first part of the year and some initial difficulties with dryers in the processing plant. The second ion exchange plant is scheduled to begin operation in May of 1998. Exploration at the neighbouring Reynolds Ranch property is scheduled for completion by the end of 1998.

Reserves and resources at Smith Ranch and Reynolds Ranch contain approximately 60 million pounds of uranium.

Ambrosia Lake

In the Ambrosia Lake area north of Grants, New Mexico, Rio Algom owns nine closed underground mines. Uranium is produced by solution mining, which involves circulating mine water through the old mine workings and then through an ion exchange plant. Plans are being made to increase annual production to 350,000 pounds by 2002 by expanding the ion exchange plant. Production was 197,000 pounds in 1997.

ZINC

Polaris

Rio Algom's current interest in zinc production is held through a 25% net proceeds royalty in the Polaris zinc-lead mine on Little Cornwallis Island in the Canadian Arctic, which contributed $9 million to income in 1997. Reserves at Polaris are considered sufficient to support mining operations through the first quarter of 2001.

COAL

Bullmoose

Rio Algom has a 29.1% interest in the Bullmoose Coal joint venture, an open pit metallurgical coal mining operation in northeastern British Columbia, Canada. In 1997, Rio Algom's share of production was 539,000 tonnes.


PEOPLE
CREATING
growth

pounds of uranium in 1998 and reach its design production rate of two million pounds per year in 1999.

[illegible] commercial production [illegible] [illegible] the US$[illegible] million [illegible] Smith Ranch project near Casper in [illegible]ortheast Wyoming began in December 1997.

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At Smith [illegible] [illegible] General Manager [illegible] Manager [illegible]

where uranium is recove[illegible] the ion exchange process. This [illegible] of extraction [illegible] less environmental impact and generally lower capital and operating costs than more traditional mining methods. When in full production, cash costs are expected to be around US$12 per pound.

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Reserves and resources at Smith Ranch and Reynolds Ranch contain approximately 60 million pounds of uranium.

[illegible]

In [illegible] Algom [illegible] Grants, New Mexico, Rio Algom [illegible] underground mines. Uranium is produced by solution mining, which involves circulating mine water through the old mine workings and then through [illegible] ion exchange plant. [illegible] [illegible] to increase [illegible] [illegible],000 [illegible] by [illegible] [illegible] 197,000 pounds in 1997.

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OVERVIEW

METALS DISTRIBUTION: *Trends and Implications*

The North American Metals Distribution Group's financial performance very much reflects overall North American economic conditions.

Volume growth of 5% in 1997 was supported by strong economic growth in Canada and the United States. Real GDP growth in 1997 was 3.8% in Canada and 3.9% in the United States, versus 1.5% and 2.8%, respectively, the prior year.

Despite favourable economic conditions, competition remained intense in the rapidly consolidating metals distribution business, putting further pressure on prices for most product lines. Consolidation is being driven by customers reducing their supplier base and demanding a broader range of services, faster turnaround and broader geographic coverage in return for their business. This is providing competitive advantage to companies with national service capabilities, which have sufficient purchasing power and economies of scale to be low-cost operators in the industry.

The three largest components of the North American Metals Distribution Group's business are stainless steel, aluminum and carbon steel.

Stainless Steel: Prices for stainless steel declined for the second consecutive year, as surging imports, increased capacity in North America and competitive pricing strategies more than offset healthy demand growth. The mill price for type 304 stainless sheet – the industry benchmark – averaged US$0.97 per pound in 1997 compared to US$1.03 per pound in 1996.

Aluminum: Selling prices for aluminum declined slightly from the 1996 level, mainly due to the impact of intense competition in the common alloy segment of the market, which represents a high proportion of the group's aluminum sales. London Metal Exchange spot prices for aluminum ingot actually rose year over year, averaging US$0.73 per pound versus US$0.68 per pound in 1996. The majority of this increase related to strengthening of the heat-treat segment as a result of strong demand from the aerospace industry.

Carbon Steel: Volumes and prices for carbon steel products showed small increases in 1997 compared to 1996, largely reflecting strong demand from automotive, appliance and other manufacturers. The steel market continued to experience competitive pressure from the mini-mills and associated operations.

METALS DISTRIBUTION

Rio Algom's North American Metals Distribution Group, based in Minneapolis, is one of the largest metals distribution businesses in North America. In the United States, Vincent Metal Goods operates a coast-to-coast network of 40 service centres; Atlas Alloys Inc. operates 12 centres in Canada. Together, they service over 50,000 customers, who represent the manufacturing, resource, construction and other industries.

For Rio Algom, the metals distribution business provides an attractive return on capital. It allows participation in North American growth through commodities other than copper. The business is consistently profitable and an important source of cash flow to support the company's growth. It also has significant prospects for growth through industry consolidation, and through potential expansion of sales, product lines and geographic coverage.

In 1997, the North American Metals Distribution Group generated $1.4 billion of revenue and $76 million of operating profit, or 78% of Rio Algom's total revenue and 38% of total operating profit. It also provided a pre-tax 19% rate of return on capital employed and a significant portion of the company's operating cash flow.

The North American Metals Distribution Group purchases metals directly from producing mills. It warehouses these metals, processes them as required – for example by custom blanking, polishing, sawing, slitting or shearing – and delivers the end product to its customers. The metals distribution business is highly competitive. However the North American Metals Distribution Group's network of service centres, with its attention to value-added processing and commitment to timely delivery, has been consistently profitable.

For Rio Algom, the metals distribution business provides an attractive return on capital.

The North American Metals Distribution Group purchases metals from producing mills, warehouses and processes them as required and delivers the end product to its customers.

Vincent Metal Goods was formed in 1995 when Vincent Metals, which traced its origins to 1937, acquired the Metal Goods division of Alcan Aluminum Limited. Today Vincent Metal Goods' principal products are stainless steel, aluminum, nickel alloys, carbon flat rolled steel, carbon and alloy bar and tubing, copper and brass. In Canada, Atlas Alloys was created in 1966 by the merger of two long-established metals distributors. Its business is now segregated into two principal product groups. Its specialty metals group includes aluminum, stainless steel, high-nickel alloys, tool steels and machinery steels in a wide range of shapes and sizes. Its engineered products group includes pipe, tube, fittings, flanges, valves, fasteners and welding consumables, in a variety of alloy materials.

Stainless steel products accounted for 41% of group sales in 1997, while aluminum products represented approximately 30% and carbon steel products about 8%.

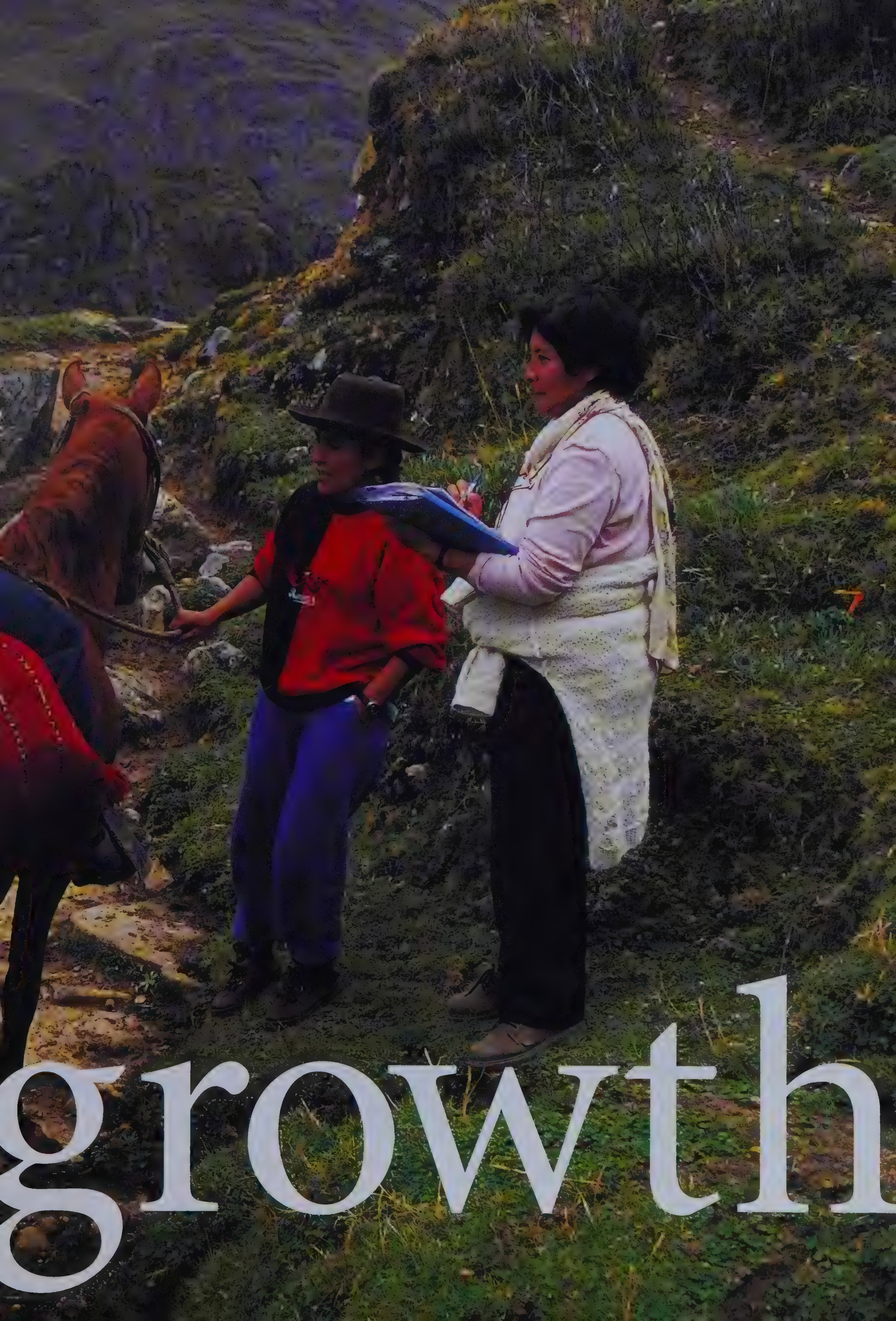
As part of its ongoing program to improve efficiencies and productivity, and thereby its competitive position, the metals group continued to upgrade and integrate its management information systems and to improve its materials handling and distribution capabilities during 1997. It also completed the consolidation of a number of service centres and sold its Mexican plant, preferring to focus on its US and Canadian operations.

During 1997, Harrison P. Jones was appointed Chief Operating Officer of Vincent Metal Goods. He was previously Executive Vice-President (Northern Division) of Vincent Metal Goods. At Atlas Alloys, upon the retirement of William I. Pollock, Michael Goldberg was appointed President. He was previously Executive Vice-President, Finance and Administration at Vincent Metal Goods.

In 1997, the North American Metals Distribution Group generated $1.4 billion of revenue and $76 million of operating profit, or 78% of Rio Algom's total revenue and 38% of total operating profit.

Opposite: Machine Operator Mike Brew operates a slitter at Vincent Metal Goods, Minneapolis, while North American Metals Distribution Group Chairman, Norman Smith, in centre, and Harrison Jones, Chief Operating Officer, on right, check inventory.

SUSTAINING



growth

CORPORATE RESPONSIBILITIES

As a growing company in business for the long run, Rio Algom understands that its success depends not only on its economic performance, but also on its ability to manage environmental risks, to protect the health and safety of its employees, and to be a good neighbour in the communities in which it operates.

Rio Algom's commitment to operate responsibly is based on the recognition that short-term gain should never compromise the long-term interests of society and the environment. The company believes that if it consistently adheres to this principle, it will benefit employees, customers, the communities in which it operates, and shareholders.

The company's actions are guided by an Environmental, Health and Safety (EHS) policy that was strengthened in 1996, and by a Statement on Community Responsibility adopted in 1997.

The EHS policy requires that at a minimum the company complies with the stricter of local or international laws and regulations. In many cases, Rio Algom's management practices dictate more stringent controls than are required by local legislation. Each site is designed from the beginning to minimize its environmental impact, maintaining as much natural vegetation as possible and protecting fish and wildlife habitats.

Previous page: Doris Prado, a researcher for AMIDEP, a Peruvian non-government organization hired by the Antamina project, interviews area residents about the potential impact of a mine development.

A local school in Mamiña near the Cerro Colorado mine receives support from Rio Algom for books and other supplies.

In the workplace, the company has set high standards to protect employees.

To implement its EHS policy, Rio Algom has created a management system that includes: board involvement in setting and reviewing policies and goals; training for workers; monitoring workplace compliance and reporting on results; corrective action as required; and regular meetings of employees and outside advisors. Each operation must have programs in place to identify, evaluate, control and monitor employee exposure to such workplace hazards as noise, dust, acid mist and radiation. All contractors doing work for the company must conduct themselves in a manner consistent with the company's standards at all times. When a project is not wholly owned, Rio Algom encourages best practices through EHS committee meetings, joint reviews, reporting and site visits.

A great deal of effort goes into understanding, preventing or controlling acid drainage. Acid drainage occurs when rock or tailings containing sulphides is left exposed to water, oxygen and natural bacteria, creating sulphuric acid. This acidic water will dissolve metals contained in the rock. If not contained and treated, the contaminated water can drain into nearby lakes and rivers, where

it can be harmful to many species of fish, insects and plants. Among the methods used to counteract this possibility, use of a water cover can virtually eliminate acid formation, liners can be used to prevent seepage of acidic water and acidic water can be collected and treated before discharge.

When a mine closes, Rio Algom's goal is to leave the site in a state that will ensure public safety and minimize impacts on the local environment, particularly on water quality and nearby lands. This is done by dismantling and removing facilities, recontouring and revegetating land where possible and carefully managing tailings areas. Plans related to closure and site restoration are developed and costs are estimated at the time of initial mine feasibility studies. They are then reviewed annually to ensure their adequacy.

Since 1985, Rio Algom has spent more than $70 million to dismantle and clean up mine sites in the Elliot Lake region, working with three levels of government, the Serpent River First Nation and other interest groups. In 1997 the Prospectors and Developers Association of Canada presented the company with a special award for its reclamation work at Elliot Lake.

"It has not gone unnoticed that over the years, while we sat across the table from one another, at times as adversaries, your company has maintained its commitment to integrity and good corporate citizenship...."

CHIEF EARL COMMANDA, SERPENT RIVER FIRST NATION,
in a letter to Rio Algom dated January 26, 1998.

A cactus is transplanted as the Cerro Colorado pit expands. Masks prevent inhalation of desert dust.

At December 31, 1997, Rio Algom had provisions of $113 million for site restoration and related obligations. The company is in substantial compliance with all environmental laws and regulations governing its activities.

The average lost-time accident frequency rate among full-time employees at Rio Algom's operations in 1997 was 0.92 accidents per 200,000 working hours, compared to 0.98 accidents per 200,000 working hours in 1996. The Canadian mining industry average is approximately 1.3 accidents per 200,000 working hours.

Rio Algom has made a commitment to respect the needs of people who live or use the land near its operations.

To accomplish this, the company explains its plans and progress to communities, hears their concerns and explores the options and alternatives available. Meetings are held with interested groups, local advisory committees are established and presentations are made on the company's plans. Ideas that can be adopted as part of these plans are encouraged. The aim is to cooperate with the community to achieve common economic, social and environmental goals.

The Statement on Community Responsibility adopted in 1997 outlines the core principles that

guide the company's community-related activities. Following are some examples of Rio Algom's commitment to these principles and of the ways in which it strives to be a good neighbour.

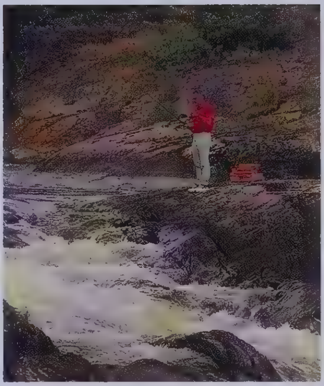
Between September 1997 and January 1998, over 20 meetings about the Antamina project in Peru were initiated with representatives of neighbouring communities.

Corporate donations in 1997 included payments in support of

Tailings water cover at Quirke mine, Elliot Lake. Water flows from pond to pond before final treatment and release.

the Canadian mining chair at the Catholic University of Santiago, to the University of Atacama in Chile, to Laurentian University in Sudbury and a donation to the Oklahoma City Memorial Fund.

In 1997, Rio Algom produced its first Environmental, Health and Safety report, "Responsible Mining for the 21st Century", which encourages questions and comments about the company's activities.



Water in the Serpent River near Elliot Lake meets drinking water guidelines and provides healthy conditions for fish.

The company presented an environmental awareness course at Pozo Almonte Industrial High School near the Cerro Colorado mine.

As mines closed and Elliot Lake changed from mining town to a thriving retirement community, Rio Algom played an important role, donating more than 1,100 houses and apartments to the town to support the transition.

Rio Algom scholarships help these two students at the University of Iquique in northern Chile.

Statement on Community Responsibility

Rio Algom will be guided by the following principles in relation to local communities during the exploration, development, operation and closure of mining and related activities.

1. Respect the cultures, customs and values of individuals and groups whose livelihoods may be affected by exploration, mining and processing.

2. Recognize local communities as stakeholders and engage with them in an effective process of consultation and communication.

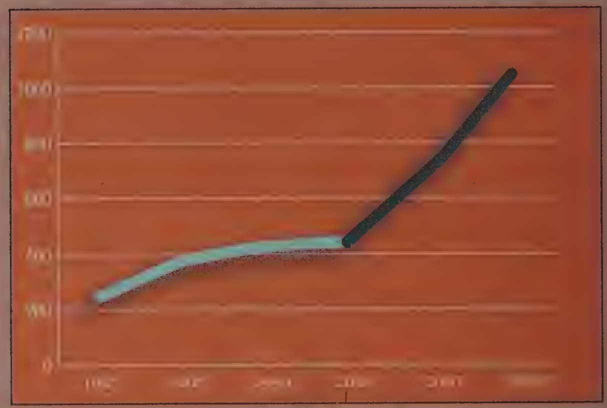
3. Participate in the social, economic and institutional development of the communities where operations are located and mitigate adverse effects in these communities to the greatest practical extent.

4. Respect the authority of national and regional governments and integrate activities with their development objectives.

FINANCIAL section

COPPER PRODUCTION

in millions of pounds



CURRENT MINES

ANTAMINA AND SPENCE PROJECTS

FINANCING

The chart above outlines Rio Algom's growth potential in copper mining. The company is also pursuing growth opportunities in other base metals, and in the product and customer coverage of its metals distribution business.

Consistent profitability and a strong financial footing are critical to financing Rio Algom's anticipated growth program, which would likely require in excess of $2 billion in capital expenditures over the next five years. In 1997, the company recorded net earnings of $83 million, marking the 38th year of continuous profits. Its financial position included net cash of $144 million, a current ratio (current assets to current liabilities) of 2.8:1 and a debt to debt plus equity ratio of 15%.

Rio Algom's approach to financing growth has included five main components: quality assets, project financing, cash flow and cash resources, lines of credit and access to capital markets.

growth

Quality assets

Rio Algom subscribes to the principle that growth must be in quality assets. As well as being the principal driver of wealth for shareholders, quality assets are the key to obtaining project financing and to raising debt and equity in the capital markets. Quality assets can be defined as those that are low cost and long life. These assets contribute to consistent profitability and to the generation of cash flow in both good and bad times. In Rio Algom's case, current development projects, if approved, should lead to a reduction in average cash costs per pound of copper to below US $0.50, while the metals distribution business is expected to continue to provide attractive returns and a high proportion of revenue and cash flow.

Project financing

Project financing has been the method of choice for financing Rio Algom's projects. The key attribute of this financing method is that lenders' primary recourse, following agreed upon events of completion, is to the cash flow and assets of the project rather than the project sponsors. This has allowed Rio Algom to manage and mitigate certain risks associated with major developments.

In its history, Rio Algom has negotiated five project financings in Canada and two in Latin America, including participation in the US $670 million senior debt financing for Alumbrera in 1997. With projects such as Spence and Antamina, the preference for project financing is expected to continue.

Cash flow and cash resources

Over the last five years, the company has generated close to $700 million in operating cash flow. Going forward, internally generated cash is expected to remain an important component of the company's financing strategy. At the end of 1997, Rio Algom had net cash and short-term investments of $144 million. In addition, it received $177 million from the second instalment of convertible debentures in February 1998.

Lines of credit

Early in 1997, Rio Algom put in place a five-year revolving term facility of US $500 million with an international banking syndicate. The facility was arranged to assure the company of flexibility as it moves forward with its growth program.

Access to capital markets

Access to capital markets is extremely important for flexibility and to fund growth opportunities.
Since 1994, Rio Algom has concluded three successful capital market transactions, at appropriate times in the cycle:

1. In 1994, a $180 million share and warrant issue;

2. In 1995, a US $150 million debenture issue in the US public debt market; and,

3. In February of 1997, a $500 million underwritten financing, comprising $353 million of convertible debentures and $147 million of common shares.

FINANCIAL STRATEGY:

Generating cash flow from operations is an important component of Rio Algom's financing strategy. Maintaining a strong cash position is critical to meeting current obligations and to ensuring flexibility as new opportunities arise.

MEASURES:

Key measures of performance include levels of operating cash flow, and cash available for planned expenditures, repayment obligations and investment opportunities.

Cash Profile

Operating cash flow up 58% in 1997

As shown in Table 1, net cash and short-term investments were $144 million at December 31, 1997 compared to $216 million at the end of 1996. Cash flow components are detailed in the Consolidated Statements of Cash Flow on page 58.

Sources of Cash

Cash flow from operations of $131 million was up $48 million or 58% from a year ago largely due to growth of 26% in earnings from continuing operations and higher deferred income taxes (a non-cash expense).

The company received net proceeds of $308 million in February 1997 from the issuance of 4.4 million common shares and the first instalment on the sale of convertible debentures. The second and final instalment on the debentures was received in February 1998 resulting in an addition to cash of $177 million.

Uses of Cash

Capital expenditures increased to $255 million from $77 million in 1996. As indicated in Table 2, the increase mainly related to the 69% expansion of Cerro Colorado, feasibility work at Antamina, development of the Smith Ranch uranium mine in Wyoming, and the acquisition of water rights at the Spence deposit in Chile.

In April 1997, the company decided to reduce interest expense and increase flexibility for future financings by repaying $206 million (US $147 million) of debt outstanding under the project financing of Cerro Colorado. This repayment contributed to a $10 million or 28% reduction in interest expenses in 1997.

Common share dividend payments totaled $43 million (1996: $39 million). Also, there was a net outflow of cash related to the Alumbrera project of $8 million as a net reduction in outstanding advances of $78 million was more than offset by an additional investment of $86 million for the purpose of completing the project. More information on Alumbrera is provided on page 46.

TABLE 1.
FACTORS AFFECTING CASH POSITION

$ millions	
Cash, beginning of 1997*	**$ 216**
Cash from operations	131
Cash from new financings	
convertible debenture instalment	163
common shares	148
Net repayment in advances to Alumbrera	78
Cash paid to shareholders/lenders	
dividends	(43)
repayment of debt/other obligations	(208)
Investment in Alumbrera	(86)
Capital expenditures	(255)
Cash, end of 1997*	**$ 144**

** net of current bank loans and overdrafts*

TABLE 2.
CAPITAL EXPENDITURES

$ millions	1997	1996
Cerro Colorado (copper)	**$ 122**	$ -
Antamina (copper-zinc)	**31**	19
Wyoming (uranium)	**28**	9
Spence (copper)	**20**	-
Nicolet (zinc)	**6**	5
Replacement & sustaining	**48**	44
Total	**$ 255**	$ 77

Profitability

Earnings from continuing operations up 26% in 1997

As shown in Table 3, net earnings from continuing operations were $83 million in 1997, up $17 million or 26% from comparable earnings in 1996. Total net earnings of $100 million in 1996 included $34 million from discontinued operations, mainly reflecting the impact of a reversal of deferred tax provisions. Discontinued operations are discussed in Note 2 to the financial statements on page 62.

Improved operating profit from mining was the main factor contributing to the increase in net earnings from continuing operations. Higher revenue prices for copper and zinc (average revenue per pound), and increased copper production mainly accounted for the stronger performance. Operating profit from metals distribution declined slightly as lower average prices for stainless steel and other metals more than offset growth of 5% in sales volumes (see page 48).

FINANCIAL STRATEGY:

Consistently generating solid earnings is one of Rio Algom's key strategies for enhancing shareholder value. Drivers of profitability are prices, production levels and cash costs for mining operations, and sales volumes, prices and margins for the metals distribution business.

MEASURES:

Net earnings, earnings per share and operating profit for individual businesses are important measures of profitability.

Higher corporate and exploration costs largely related to approximately $14 million of exploration spending at the Spence deposit in Chile, the discovery of which was announced in January 1997. A reduction in net interest expenses in 1997, mainly resulting from the repayment of $206 million of Cerro Colorado project financing debt, had a favourable impact on earnings compared to a year ago.

Earnings per common share from continuing operations were $1.22 in 1997, up from $1.20 on a comparable basis in 1996. The increase reflected growth in net earnings which more than offset the effect of a higher average number of shares outstanding (60.1 million versus 55.2 million in 1996) and accretion on the equity component of convertible debentures issued in 1997. Total earnings per share in 1996 of $1.82 had included $0.62 per share from discontinued operations.

NET EARNINGS FROM CONTINUING OPERATIONS
$ millions

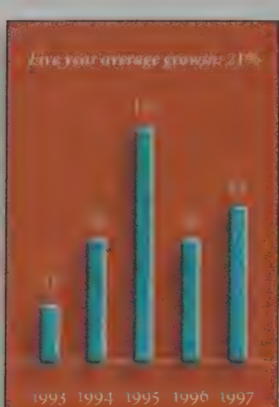


TABLE 3. NET EARNINGS

$ millions	1997	1996
Mining operations	$ 126	$ 92
Metals distribution	76	78
Total operating profit	$ 202	$ 170
Corporate and exploration costs	(55)	(36)
Net interest expenses*	(2)	(18)
Income and mining taxes	(62)	(50)
From continuing operations	$ 83	$ 66
From discontinued operations	-	34
Total	$ 83	$ 100

** includes interest expense and investment and other income (mainly interest income)*

FINANCIAL STRATEGY:

Two factors influence revenue: volumes, which include production levels for mining operations and sales volumes for metals distribution; and prices, largely those for copper, stainless steel and aluminum.

Rio Algom's strategy for mining is to grow both revenue and profit by developing low-cost, long-life projects and by investing in current operations to maintain or enhance their cost competitiveness. In the metals distribution business, the focus is on expanding profitable product and customer coverage.

MEASURES:

Key measures of performance include the change in revenue from year to year, as well as production levels for mining operations and metals distribution sales volumes.

Revenue

Mining revenue up 13%, volume growth in metals distribution offset by lower prices

In 1997, revenue was virtually unchanged from a year ago. Growth of $47 million or 13% from mining operations was offset by a $46 million or 3% reduction in revenue from the North American Metals Distribution Group due to lower prices for stainless steel and other products. Given its nature as a high-volume, narrow-margin business, metals distribution accounts for a high proportion of Rio Algom's revenue (78% in 1997 and 81% in 1996). As a result, changes in its volumes and selling prices can have a significant impact on the company's revenue.

Volumes

Volume factors had a $97 million positive impact on revenue compared to the 1996 level. Metals distribution accounted for about three-quarters of this impact, with sales volumes increasing 5% due to strong economic conditions in North America, especially in Canada. Increased copper production largely resulted from improved recovery rates and mill availability at Highland Valley Copper and greater plant optimization at Cerro Colorado.

Prices

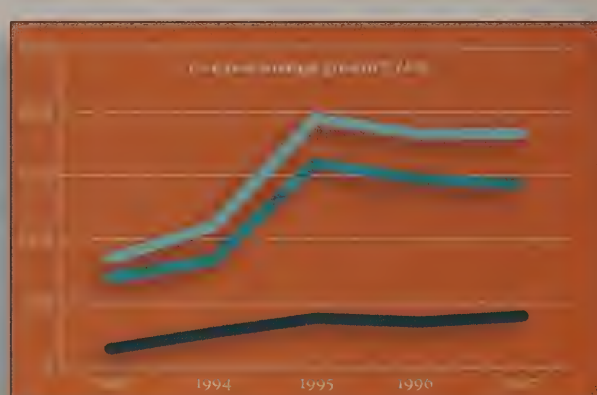
A $96 million unfavourable impact from price changes compared to a year ago was due to lower selling prices for most products of the metals distribution business, partly offset by higher revenue prices for copper and zinc from mining operations. In particular, selling prices for stainless steel fell as surging imports and increased production capacity in North America led to excess supply and intense competitive pressures.

Revenue prices for copper, representing average revenue per pound, increased despite a slight reduction in the average LME spot price, to US $1.03 per pound from US $1.04 in 1996. The improvement largely reflected favourable settlements in the second quarter of 1997 when copper prices rose sharply. More information on copper revenue is provided on page 43.

Zinc prices benefited from tight concentrate availability and strong demand early in 1997. However, prices fell near the end of the year as inventories rose, largely in response to lower Asian demand.

REVENUE

$ millions

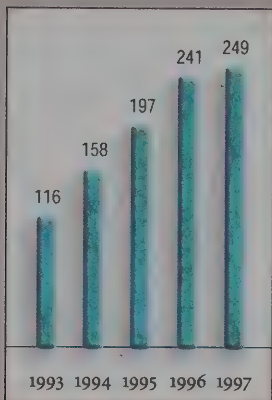


**total revenue*

TOTAL REVENUE
METALS
MINING

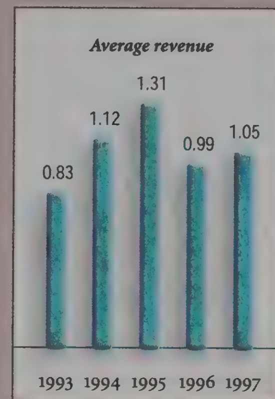
1996 revenue:	**$1,833**	**million**
Volumes:	$97	million
Prices:	($96)	million
1997 revenue:	**$1,834**	**million**

COPPER PRODUCTION
millions of pounds



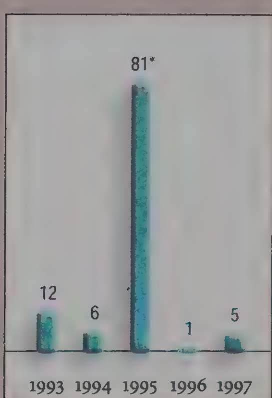
*Growth due to improved performance from both Highland Valley Copper and Cerro Colorado**

COPPER
US $ per pound



*Higher revenue price largely reflects favourable settlements in '97**

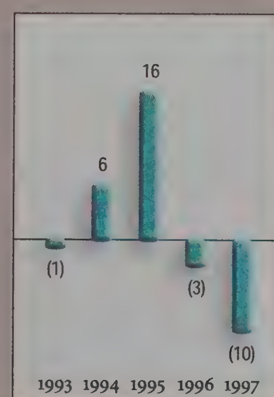
METALS DISTRIBUTION
% change in sales volumes



**reflects acquisition of Metal Goods in 1995*

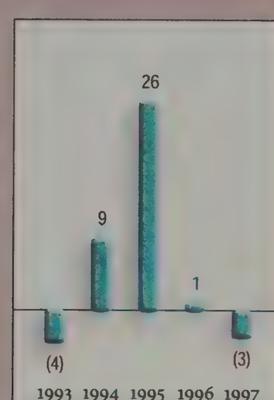
*Strong economic conditions in Canada and the United States support higher volumes**

STAINLESS STEEL
% change in average selling price



*Surging imports, increased North American capacity, depress stainless steel prices**

ALUMINUM
% change in average selling price



*Lower aluminum prices reflect intense competition in the common alloy segment**

**Captions relate to comparisons between 1997 and 1996*

FINANCIAL STRATEGY:

Rio Algom's mining strategy is to generate solid earnings for shareholders, regardless of the price cycle, by investing in long-life, low-cost projects and improving efficiency of existing operations.

MEASURES:

While revenue and operating profit are important measures, they are heavily influenced by changes in base metal prices. As a result, the company also looks at production levels and operating cost per unit of production when assessing performance.

Mining Operations

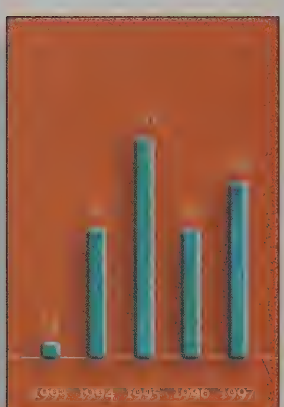
Strong results in '97, poised for growth going forward

Operating profit from mining operations rose $34 million or 37% from a year ago. Contributing to the increase were revenue growth and effective cost control. Revenue rose 13% due to higher prices for copper and zinc and increased copper production, while production costs and other expenses were largely held flat from a year ago.

Copper mining operations, including the 100%-owned Cerro Colorado mine in Chile and Rio Algom's 33.6% interest in Highland Valley Copper in British Columbia, accounted for $27 million or almost 80% of the increase in operating profit. The remaining 20% mainly related to higher royalty income from the Polaris zinc-lead mine.

Operating cash flow from mining increased to $187 million in 1997 from $121 million in 1996, with almost all of the increase related to copper mining operations.

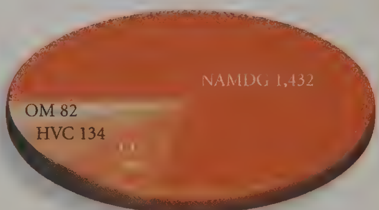
OPERATING PROFIT
$ millions



Results by major operating unit

1997 REVENUE
$ millions

Total: $1,834 million



1997 OPERATING PROFIT
$ millions

Total: $202 million

CC - CERRO COLORADO (COPPER)
HVC - HIGHLAND VALLEY COPPER
OM - OTHER MINING
NAMDG - NORTH AMERICAN METALS DISTRIBUTION GROUP

Copper Mining

As shown in Table 4, revenue from copper mining operations rose 10% while operating profit was up 31% from a year ago. Both increases largely reflected higher revenue prices and production growth.

1997 REVENUE GROWTH
$ millions

Total: $29 million

Higher average revenue largely reflected favourable settlements in the second quarter of 1997, when the spot copper price rose to a high of US $1.23 per pound driven by supply disruption, robust demand and inventory restocking. Favourable settlements result when copper transactions are settled at prices greater than those used to record revenue at the time of production (usually 90% of the LME spot or three-month forward price, whichever is lower). Unfavourable settlements served to reduce the average revenue price in 1996.

The company's hedging program covered all settlements in the fourth quarter of 1997, when the spot price averaged US $0.87 per pound in response to rising inventories, falling demand and concern over future production growth and Asian economic problems. A total of 71 million pounds of copper were covered by put options with an average strike price of US $1.00 per pound. Gross proceeds to the company from these hedged positions were US $9.0 million. In 1996, put options with strike prices of either US $1.10 per pound or US $1.00 per pound covered approximately 80% of settlements and generated gross proceeds of US $9.4 million.

TABLE 4. COPPER MINING OPERATIONS

$ millions	Cerro Colorado		Highland Valley Copper [1]		**Total**	
	1997	1996	1997	1996	1997	1996
Revenue	**$186**	**$173**	**$134**	**$118**	**$320**	**$291**
Production, depreciation and other expenses	(104)	(105)	(102)	(99)	(206)	(204)
Operating profit	**$ 82**	**$ 68**	**$ 32**	**$ 19**	**$114**	**$ 87**
Production (millions of lbs.)	133	131	116	110	249	241
Average revenue price per lb. (US $)	1.05	1.01	1.05	0.97	1.05	0.99
Cash costs per lb. (US $)	0.50	0.51	N/A	N/A	0.61	0.61
Recovery rate [2]	76%	69%	92%	91%		
Stripping ratio [3]	2.9	3.6	1.0	1.1		
Tonnes of ore mined (millions)	5.5	5.5	15.1	14.3		
Average ore grade mined (%)	1.52	1.46	0.394	0.396		

(1) Rio Algom's 33.6% share

(2) percentage of copper in ore which is recovered

(3) ratio of waste rock removed per tonne of ore

Cerro Colorado

Revenue rose 8% from a year ago, while operating profit increased 21%. The average revenue price was up US \$0.04 per pound, to US \$1.05, while cash costs per pound declined US \$0.01, to US \$0.50.

Contributing to lower cash costs were a reduction in the stripping ratio and improvement in the recovery rate, the latter mainly reflecting the addition of a new leach pad, greater efficiency following scheduled maintenance of the crushing system and improvement in the recirculation of leaching solution.

Production increased by two million pounds, reflecting higher electrowinning plant optimization.

Operating cash flow rose by \$50 million, to \$117 million, in line with increased revenue and profitability. Capital expenditures totaled \$129 million, including \$122 million related to the current expansion project, which is scheduled to be completed in mid-1998 at a cost of approximately US \$200 million. The expansion will result in additional annual production capacity of about 90 million pounds.

Under the terms of current sales contracts expiring December 31, 2008, Cerro Colorado is committed to deliver a total of 106 million pounds of copper cathode annually. Remaining production, expected to be about 50 million pounds in 1998, is sold under annual and spot contracts. Prices under all contracts are based on average LME cash settlement prices in or around the month of delivery.

The expected life of the mine at the expanded capacity is approximately 18 years.

Highland Valley Copper

Rio Algom's share of revenue rose 14%, while operating profit was 68% higher than in 1996.

Production was 116 million pounds in 1997, following a 6% reduction in 1996 mainly due to a planned relocation of the in-pit conveying and crushing system and weather problems. Both mill availability of 93% and copper recovery of 92% reached record levels in 1997.

Operating cash flow increased 65% from a year ago, to \$61 million. Rio Algom's share of capital expenditures, related to replacement and sustaining capital, was \$7 million versus \$14 million in 1996.

Highland Valley Copper has four long-term copper concentrate contracts, each of which represents more than 10% of sales and which, in aggregate, account for over 70% of sales. Two of these contracts are with a group of Japanese smelters which purchase approximately 50% of production. Prices are based on LME prices, generally three months after delivery. The remaining 30% of sales are mainly sold under annual contracts.

At the currently planned operating level, the mine is expected to remain in production until the year 2008.

Other Mining

As shown in Table 5, revenue rose 28% from a year ago, while operating profit more than doubled to $12 million.

Polaris Royalty – Zinc

Revenue from Rio Algom's 25% royalty interest in the Polaris zinc-lead mine rose 89% from a year ago, while operating profit increased to $9 million from $2 million in 1996. Both increases largely related to higher zinc prices. Total royalty income to the company to the end of 1997 was $34 million.

Based on current reserve estimates, production at Polaris is expected to cease at the end of the first quarter of 2001.

TABLE 5. OTHER MINING OPERATIONS

$ millions	1997	1996
Revenue		
Bullmoose Coal	$ 50	$ 51
RAMC*	15	4
Polaris royalty	17	9
Total	$ 82	$ 64
Operating Profit		
Bullmoose Coal	$ 3	$ 4
RAMC*	-	(1)
Polaris royalty	9	2
Total	$ 12	$ 5

** Rio Algom Mining Corporation*

Rio Algom Mining Corporation (RAMC) – Uranium

Revenue from uranium operations was $15 million versus $4 million in 1996. The improvement related mainly to an increase of approximately 500,000 pounds in the amount of Russian source uranium sold under matched-sale contracts in 1997. Operating profit was largely unchanged as profit from the sale of Russian material was deferred, pending future delivery of matching RAMC-produced uranium. Matched-sale contracts are described in the glossary on page 84.

RAMC production increased to 262,000 pounds from 183,000 pounds in 1996, with 65,000 pounds of the increase coming from the Smith Ranch *in situ* leaching mine, which began commercial production in December. At December 31, 1997, expenditures and commitments for the project were US $30 million versus an estimated total cost of US $44 million.

RAMC has sales contracts in place for delivery of production totaling 5.3 million pounds to the year 2002, representing about 58% of Smith Ranch's first five years of production. Approximately 40% of these contracts are matched-sale contracts, requiring delivery of an equivalent quantity of Russian origin uranium.

Bullmoose Coal

Rio Algom's 29.1% share of revenue was largely unchanged, while operating profit declined slightly.

The majority of Bullmoose Coal's production is sold in fixed annual quantities under long-term contracts to nine Japanese steel-making firms. Prices are adjusted quarterly based on inflation as measured by various Canadian cost and price indices. Originally scheduled to expire in March 1999, the contracts have been extended to 2003. Under terms of the contract extensions, prices for delivery after March 1999 will be based on prevailing market prices.

STRATEGY:

Rio Algom has an ongoing interest in base metal exploration and development through proprietary, partnership and acquisition activities. Its focus is on large deposits of copper and zinc which will support low-cost production. The company firmly believes that providing long-term value for shareholders requires a steady pipeline of new projects which will, on a continuous basis, add quality assets to its portfolio.

MEASURES:

Key measures include success in finding new deposits, performance against schedules and budgets for development projects, and the number and potential of exploration projects under consideration.

Exploration and Development

Increased exploration spending largely reflects work at Spence deposit

Exploration spending was $26 million in 1997, almost double the 1996 level. The increase mainly related to the Spence deposit, the discovery of which was announced in January 1997.

Alumbrera

Development of this project, in which Rio Algom has a 25% interest, was substantially completed in 1997, with commercial production scheduled to commence in the first quarter of 1998.

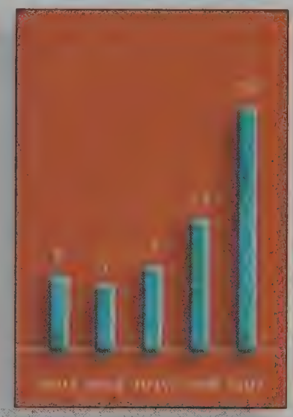
Project financing negotiations were completed in February resulting in US$670 million of senior debt being committed. Rio Algom has provided a several guarantee for 25% of that amount, being approximately US$168 million. The guarantee will terminate upon satisfaction of completion tests and contains exclusions for certain political risks.

By the end of 1997, US $567 million of the project financing had been drawn down with the remaining $103 million expected in 1998. Of the drawdowns in 1997, $134 million (US $97 million) was used to repay advances from Rio Algom, which had been used to fund the early stages of the project. The impact of this repayment was partially offset by $56 million (US $39 million) of new advances provided during the year. At December 31, 1997, there remained $34 million (US $24 million) of advances outstanding, which are repayable in 1998 from remaining project financing drawdowns. The company's total long-term investment in Alumbrera at year end was $356 million, with $86 million having been provided during 1997.

Total funding requirements, comprising capital costs, working capital and refundable value-added tax payments, were adjusted during the year from US $903 million to US $1.2 billion. The increase largely reflected re-routing of the pipeline and improvements to the tailings management and water recovery systems. At December 31, 1997, US $1.1 billion of the US $1.2 billion estimated total cost had been spent or committed.

Concentrate sales commitments have been made for approximately 90% of annual production. Current reserves are expected to support a mine life of 20 years.

EXPLORATION SPENDING
$ millions



Antamina

Rio Algom's investment in Antamina was $31 million in 1997 versus $19 million in 1996.

Funds were largely used to complete a detailed drilling program designed to expand existing reserves. The feasibility study and environmental impact assessment are expected to be completed during the first quarter of 1998.

At a production rate of 70,000 tonnes of ore per day, the estimated resource of 501 million tonnes grading 1.2% copper, 1.0% zinc, 12 grams per tonne of silver and 0.03% molybdenum should be sufficient for 20 years of production.

As part of their successful 50:50 joint bid for the project, Rio Algom and its partner, Inmet, must elect to proceed with the project or return it to Centromin, an agency of the Peruvian government, by September 1998. In connection with the bid, the two partners are committed to invest US$2.5 billion by September 2001, if they elect to proceed. If the actual investment is less than that amount, 30% of the shortfall must be paid to Peru in lieu of further expenses. Total costs, including shortfall payments, are currently expected to be in the range of US$2.0 billion.

Spence deposit

Exploration spending related to the Spence deposit in northern Chile totaled $14 million, up from about $6 million a year ago.

An exploration program including a total of 341 diamond drill holes covering close to 100,000 metres, was completed during 1997 for the purpose of establishing measured and indicated resources. The current in-pit resource estimate is 306 million tonnes grading 1.1% copper. Results from the drilling program will be used to complete bulk sampling, metallurgical testing and pre-feasibility work in 1998.

Capital expenditures were $20 million in 1997, mainly related to the acquisition of water rights.

Nicolet Minerals Company

On January 23, 1998, Rio Algom acquired 100% of a zinc-copper deposit near Crandon, Wisconsin. Previously, the company had been part of a 50:50 partnership with Exxon Coal and Minerals. The cost of the acquisition was US $17.5 million, with an additional US $5.0 million due when the project begins commercial production. Exxon will also have a net profits royalty of between 2.25% and 3.75%, depending on the price of zinc.

Permitting of the project is expected to take two to three years. The project has the potential to produce 330 million pounds of zinc annually in concentrate.

FINANCIAL STRATEGY:

Metals distribution provides an attractive rate of return and adds a degree of stability to the company's earnings and cash flows.

To grow earnings, the North American Metals Distribution Group (NAMDG) is pursuing opportunities to expand its product and customer coverage, both internally and through acquisitions, in order to provide the scale needed to compete in this rapidly consolidating industry.

MEASURES:

Performance is assessed using revenue and operating profit, as well as sales volumes, margins and return on capital employed.

Metals Distribution

Attractive return on capital, stable margins despite lower metal prices

As shown in Table 6, operating profit declined by $2 million from the 1996 level as a result of lower prices. The operating margin was unchanged at 5.3%, while return on capital employed remained attractive at 19% compared to 21% a year ago.

Revenue in 1997 was down $46 million or 3% from the previous year. The reduction stemmed from lower metal prices, with the average selling price for stainless steel declining by 10% and the average price for aluminum down 3%. Lower prices served to reduce revenue by approximately $118 million, which was only partially offset by a favourable impact of $72 million from higher sales volumes. Sales increased by 5% largely due to strong North American economic conditions, particularly in Canada where real GDP growth was 3.8% compared to 1.5% in 1996.

Stainless steel accounted for 41% of revenue versus 43% a year ago. The revenue contribution from aluminum increased to 30% from 28% reflecting higher volumes. Carbon steel represented 8% of revenue in 1997, unchanged from a year ago.

Costs of goods sold, which are determined by valuing inventories on the LIFO basis, declined by $44 million from 1996 levels largely due to lower mill prices.

Operating expenses were unchanged from 1996, despite higher business volumes, reflecting NAMDG's commitment to cost control in this intensely competitive industry. Market conditions in the metals distribution business are discussed on page 26.

Capital expenditures, related to replacement and sustaining capital, were $7 million compared to $8 million in 1996.

Most major sales contracts were successfully renewed in 1997 for the year 1998. At December 31, 1997, no customer accounted for more than 1% of total revenue.

OPERATING PROFIT
$ millions

TABLE 6. METALS DISTRIBUTION

$ millions	1997	1996
Revenue	**$1,432**	$1,478
Costs of goods sold	**1,182**	1,226
Operating and other expenses	**174**	174
Operating profit	**$ 76**	$ 78
Return on capital employed	**19%**	21%
Operating margin*	**5.3%**	5.3%
% contribution to revenue		
Stainless steel	**41**	43
Aluminum	**30**	28
Carbon steel	**8**	8
Other	**21**	21

* *operating profit as a percentage of revenue*

Environmental Responsibility

Making adequate provisions for future closures and restoration costs

An overriding objective of Rio Algom is to comply with all environmental laws and regulations including those respecting mine restoration, waste and water management, the handling and disposal of solid and hazardous materials and occupational health and safety. The company believes that it is in substantial compliance with all such material legal requirements.

Programs are implemented to monitor compliance with licenses, permits and regulatory requirements, as well as the company's own environmental and health and safety policies. Management reports to the Environmental Health and Safety Committee of the Board of Directors on compliance with applicable policies, permits, licenses, regulatory requirements and reclamation plans.

STRATEGY:

Rio Algom's strategy is to prudently manage its environmental obligations in all aspects of its business. Effective management in this respect is considered an integral part of the company's daily operations.

MEASURES:

The company regularly reviews its environmental programs and provisions in relation to current environmental laws and policies to ensure ongoing compliance.

Rio Algom believes that it has made and is making adequate financial provision for its share of planned shutdown and restoration programs at producing, closed and discontinued operations.

Each operating mine has a plan, reviewed annually, which estimates the cost of necessary measures to rehabilitate the site and protect the environment and public health and safety at the end of the mine's life. The cost of implementing this plan is charged against annual earnings over the life of the operation.

In 1997, the company recorded $4 million in provisions for future restoration costs at operating mines, unchanged from a year ago. In addition, in 1996 $60 million ($40 million after income taxes) of provisions were charged to earnings from discontinued operations, reflecting the Federal government's decision to require relicensing of previously-closed uranium mines and in consideration of potential costs in respect of other discontinued operations.

Rio Algom spent $14 million on site restoration in 1997, unchanged from the 1996 level. Restoration spending is expected to rise to approximately $24 million in 1998, largely due to the beginning of restoration work at the Poirier mine in Quebec.

In April 1996, the Quebec Ministry of Natural Resources requested that Rio Algom submit a restoration plan for the Poirier mine which was operated in the 1960's and 1970's and sold by the company in the mid-1980's. A proposed restoration plan has been prepared for the approval of the Quebec government, with construction expected to begin shortly after such approval is obtained.

FINANCIAL STRATEGY:

Rio Algom's strategy is to maintain sufficient liquidity to meet its obligations and adequate financial resources to provide flexibility as it moves forward with its growth program.

MEASURES:

Key measures of liquidity and financial position include the company's cash position, the current ratio and the ratio of debt to debt plus equity.

Liquidity and Capital Resources

Sound financial footing critical to growth program

Cash and short-term investments, net of current bank loans and overdrafts, were $144 million at December 31, 1997 versus $216 million at the end of 1996. The reduction largely reflected the company's decision to repay $206 million of project financing debt and an increase in capital expenditures to $255 million. The company's cash profile is reviewed on page 38, while its Consolidated Statements of Cash Flow is provided on page 58.

In January 1997, the company arranged a $500 million underwritten financing, comprising $353 million of convertible debentures (the debentures) and $147 million from the issuance of 4.4 million common shares. Net proceeds of $308 million were received on February 4, 1997, representing funds from the sale of shares and the first instalment of the debentures. The second and final instalment was received on February 4, 1998 resulting in additional cash of $177 million.

More information on the debentures, which have a term of 10 years and bear an interest rate of 5.5% per annum, is provided in Note 11 to the financial statements on page 66.

To ensure flexibility as it moves through the next five years of growth, a US $500 million revolving term facility was put in place with an international banking syndicate in April 1997. The facility is extendible annually for one further year at the discretion of the lenders. It is unsecured and contains debt to total capitalization, minimum tangible net worth and negative pledge covenants. Under certain circumstances, the credit facility would require approval of the lenders to any material asset dispositions by the company. Pricing of the credit facility is dependent upon the credit rating of Rio Algom's senior unsecured debt.

The senior unsecured debt of Rio Algom is currently rated Baa2 by Moody's Investors Service and BBB by Standard & Poor's. An investment grade rating of Baa3 from Moody's was assigned to the debentures issued as part of the January 1997 financing.

Rio Algom had $4 million of short-term debt at the end of 1997 compared to $8 million in 1996. The current ratio at December 31, 1997 was 2.8:1 compared to 2.6:1 a year ago. The improvement mainly related to the addition to current assets of $177 million of receivables, representing the second instalment of debentures. These funds were received in February 1998.

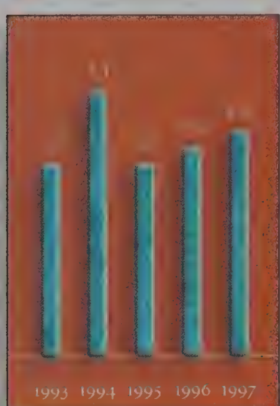
The company's percentage of debt to debt plus equity at December 31, 1997 improved to 15% from 26% at December 31, 1996. The improvement reflected the repayment of the Cerro Colorado project financing debt and the increase to shareholders' equity resulting from the issuance of common shares and the equity portion of the convertible debentures.

In view of the company's right to redeem the debentures through the issuance of common shares, they are being accounted for as having both a debt and an equity component. The liability element was $75 million at December 31, 1997. This amount represented the present value of interest payments discounted at the company's normal borrowing rate until February 4, 2002. Interest expense is determined on the debt component. Each year, a portion of the required interest payment is applied as a reduction of the debt component and is shown in the current liability section of the balance sheet. In 1998, the reduction will be $19 million, with similar reductions expected thereafter until 2002.

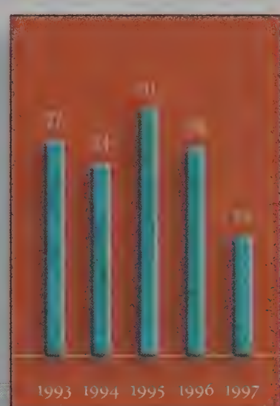
Excluding the debt component of the debentures, long-term debt at December 31, 1997 was $216 million, down from $408 million at the end of 1996. Repayment obligations at the end of 1997 related to this long-term debt were $1 million for 1998 and nil for the years 1999-2002.

At December 31, 1997, the balance in Rio Algom's cumulative translation account, representing the cumulative unrecognized exchange gain on the company's foreign assets, was $67 million compared to $31 million at December 31, 1996. The increase mainly related to the strengthening of the US dollar against the Canadian dollar.

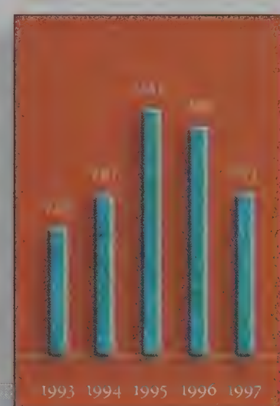
CURRENT RATIO
at December 31



DEBT TO DEBT PLUS EQUITY
at December 31
%



LONG-TERM DEBT
at December 31
$ millions



Risks and Uncertainties

Copper Risk

The price of copper is the most significant factor influencing the profitability of Rio Algom. As shown on the chart below, the sensitivity to changes in copper prices will increase in 1998, reflecting expected growth in copper production of over 50% to 380 million pounds.

In 1997, the company purchased put options for 70 million pounds of copper settling in the fourth quarter of 1997 and January 1988 at an average strike price of US $1.00 per pound. An additional 5% of settlements over the remainder of 1998 are hedged with an average strike price of US $0.90 per pound. These settlements relate to production from Cerro Colorado and Highland Valley Copper only. At Alumbrera, which Rio Algom does not operate, 7% of expected 1998 copper production is hedged at US $1.01 per pound, while 11% of expected 1998 gold production is hedged at a strike price of US $355 per ounce.

Metals Distribution Risk

Changing margins related to products sold by the metals distribution business also affect Rio Algom's profitability. The impact can be significant, particularly in an environment of weak copper prices when the relative contribution of the metals business to total operating profit increases.

The sensitivity of the company's net earnings to changing metals margins in 1997 was virtually unchanged compared to 1996.

Currency Risk

Because selling prices for copper are quoted in US dollars, and the metals distribution business is predominately located in the US, a significant proportion of the company's operations are now conducted in US dollars. As a result, future changes in the exchange rate between Canadian and US dollars could materially affect the company's revenue and profitability. In 1997, a weaker Canadian dollar produced a favourable exchange-rate effect.

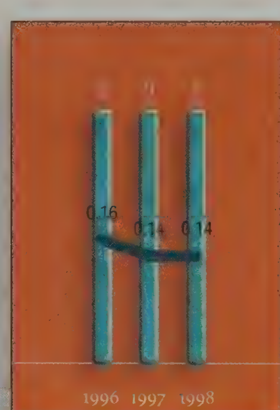
As shown in the accompanying chart, the sensitivity of net earnings to changing Canada-US exchange rates in 1998 is expected to decline somewhat from the 1997 level.

COPPER PRICE

NET EARNINGS *($ millions)*
EARNINGS PER SHARE *($)*

Impact of a US $0.10 per lb. change in copper price

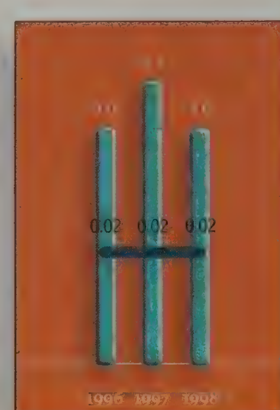
METALS MARGIN



NET EARNINGS *($ millions)*
EARNINGS PER SHARE *($)*

Impact of 1% change in the operating margin

EXCHANGE RATE



NET EARNINGS *($ millions)*
EARNINGS PER SHARE *($)*

Impact of a US$0.01 change in the exchange rate

Environmental Risk

Regulatory standards continue to change, increasing environmental and closure costs at operating and closed mines. While the company makes reasonable ongoing provisions in its accounts for expected restoration costs and related obligations, any modification in environmental laws or regulations, or in assumptions used in estimating such costs and obligations, could materially affect these provisions. Changes in provisions are recognized by the company when the required modifications become known.

Political and Financial Market Risks

Adverse political and economic developments can affect the performance of an investment. While project financing arrangements may contain exclusions for certain political risks, including those covered by political-risk insurance taken out by the relevant bank syndicate, the company's equity investment is not covered.

Rio Algom requires capital to pursue its growth program. While the quality of development projects is a primary factor when attempting to obtain financing, access to financial markets can be affected by changing economic and political conditions globally, as well as in the countries in which development opportunities arise.

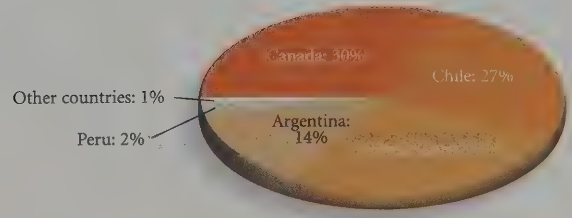
Other risks

Year 2000 risk: This risk involves the potential for the company's operations to be disrupted by the failure of computer systems which were not designed to function using dates for the new millennium. At December 31, 1997, all of Rio Algom's operations had completed initial reviews to assess the risks of Year 2000 compliance. All units have or will develop detailed plans for making any necessary program conversions and software upgrades, as well as for the testing of new systems' compliance with Year 2000 dates. Additional steps will be taken, both in 1998 and 1999, to finalize adjustment plans and to complete compliance testing. Expenses related to Year 2000 compliance are not expected to be material to the company's financial results or condition.

Project specific risk: Each of the company's operations and development projects include specific risks that must be carefully managed to ensure their continued viability or successful completion. Among such risks are the uncertainty surrounding the availability of Russian source uranium, of which Rio Algom Mining Corporation must deliver 2.3 million pounds over the next five years; the dependence of the Bullmoose Coal mine on another producer, the Quintette mine, to share rail costs which otherwise render the mine uneconomical; and the potential for permitting delays to affect the feasibility of the Crandon project in Wisconsin.

1997 ASSETS BY LOCATION

Total assets: $2,472 million



Outlook

Price of copper will be a key variable in 1998

Results in 1998 will be significantly influenced by copper prices, which ended 1997 at US $0.78 per pound (LME spot price) after reaching a high of US $1.23 per pound earlier in the year. Copper markets are expected to show continued volatility in 1998.

Western World refined copper production growth is forecast at 3.9% in 1998, while consumption should increase by about 2.0%. While a supply surplus is expected during the year, a number of factors could shift the market balance significantly. For example, economic and currency problems throughout much of Asia remain an important variable which could move copper markets in either direction depending upon the effectiveness of stabilization initiatives. Factors that could create greater balance in the market include: potential purchases by the Chinese Strategic Reserve Bureau, which contributed to lower inventories and higher prices in the first half of 1997; commissioning delays in bringing new production on stream; and the removal of existing capacity either through normal attrition or in response to unfavourable market conditions.

In 1998, Rio Algom expects to benefit from an increase in copper production of more than 50%, to 380 million pounds (including Rio Algom's share of production at Alumbrera). On the same basis, that is including production from Alumbrera, the company anticipates that cash costs per pound of copper will decline by approximately 10% to the range of US $0.55 per pound.

In terms of the company's growth profile, key developments expected in the coming year include:

- Attainment of commercial production at Alumbrera in the first quarter;
- Completion of the Antamina feasibility study, also in the first quarter, and the announcement of a development decision by September 1998;
- Completion of bulk sampling, metallurgical and pre-feasibility work at the Spence deposit;
- Completion of the Cerro Colorado expansion by mid-1998, increasing annual copper production capacity by 69% to 220 million pounds by the year 2000;
- Production of one million pounds of uranium at the Smith Ranch mine following the commencement of commercial production in December 1997.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Some of the disclosures included in the 1997 annual report respecting production, expenses and development schedules and budgets represent forward-looking statements (as defined in the U.S. Securities Exchange Act of 1934). Such statements are based on assumptions and estimates related to future economic and market conditions. While the reasonableness of such assumptions and estimates is reviewed regularly by management, unusual or unanticipated events may occur which render them inaccurate. Under such circumstances, future performance may differ materially from projections.

MANAGEMENT'S REPORT

Management is responsible for preparation of the consolidated financial statements and the information contained throughout this report. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include amounts that are based on informed judgements and best estimates. Other financial information appearing throughout this report is consistent with that in the consolidated financial statements.

Rio Algom Limited maintains systems of internal controls over the financial reporting process, designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors, through an Audit Committee composed of five non-management directors, oversees management's performance of its financial reporting responsibilities. The Board reviews and approves the financial statements.

The Audit Committee, appointed by the Board of Directors, meets periodically with management, internal auditors and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the financial statements and recommends them to the Board for approval. The Committee also considers, for review by the Board and approval by the shareholders, the appointment of the external auditors.

Coopers & Lybrand, the Company's external auditors, have audited the consolidated financial statements, in accordance with generally accepted auditing standards on behalf of the shareholders. They have full and free access to the Audit Committee.

Patrick M. James
President and Chief Executive Officer
February 11, 1998

Michael S. Parrett
Vice-President and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Rio Algom Limited as at December 31, 1997 and 1996 and the consolidated statements of earnings, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and its cash flow for the years then ended in accordance with accounting principles generally accepted in Canada.

Coopers & Lybrand
CHARTERED ACCOUNTANTS

Toronto, Canada
February 11, 1998

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended December 31, 1997 and 1996

EARNINGS

(in millions of Canadian dollars except per share data)	1997	1996
REVENUE		
Revenue from mine production and sale of metal products	$ 1,834	$ 1,833
EXPENSES		
Cost of mine production and metal sales	1,386	1,420
Selling, general and administration	212	204
Depreciation and amortization (note 17)	63	61
Interest (note 18)	26	36
Exploration	26	14
	1,713	1,735
	121	98
Investment and other income	24	18
Earnings before taxes and discontinued operations	145	116
Income and mining taxes (note 19)		
Current	34	55
Deferred	28	(5)
	62	50
Earnings from continuing operations	83	66
Discontinued operations, net of tax (note 2)	-	34
Net earnings for the year	$ 83	$ 100
Earnings per common share (note 12)		
Earnings from continuing operations	$ 1.22	$ 1.20
Net earnings for the year	$ 1.22	$ 1.82

RETAINED EARNINGS

(in millions of Canadian dollars)	1997	1996
Balance, beginning of year	$ 730	$ 669
Net earnings for the year	83	100
	813	769
Dividends	(43)	(39)
Accretion of equity element of convertible debentures (note 11)	(9)	-
Balance, end of year	$ 761	$ 730

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS

December 31, 1997 and 1996

(in millions of Canadian dollars)	1997	1996
ASSETS		
Current		
Cash and short term investments	$ 148	$ 224
Receivables and prepaid expenses (note 7)	286	341
Debenture instalment receivable (note 11)	176	-
Inventories (note 4)	345	308
Discontinued operations (note 2)	17	22
	972	895
Property, plant and equipment (note 5)	515	472
Construction in progress	134	18
Mining properties (note 6)	465	400
Investment (note 7)	356	270
Other assets (note 8)	30	32
	$ 2,472	$ 2,087
LIABILITIES		
Current		
Bank loans and overdrafts	$ 4	$ 8
Accounts payable and accrued liabilities (notes 9 and 10)	302	287
Income and mining taxes	16	22
Current portion of long term debt (note 9)	1	19
Current portion of liability element of convertible debentures	19	-
Discontinued operations (note 2)	1	6
	343	342
Long term debt (note 9)	215	389
Liability element of convertible debentures (note 11)	56	-
Non-current site restoration and related obligations (note 10)	93	110
Deferred taxes	133	105
	840	946
SHAREHOLDERS' EQUITY		
Equity portion of convertible debentures (note 11)	276	-
Common shares (note 12)	490	342
Contributed surplus	38	38
Cumulative translation adjustment (note 13)	67	31
Retained earnings	761	730
	1,632	1,141
	$ 2,472	$ 2,087

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board of Directors:

James T. Black
Director

Gordon C. Gray
Director

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CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31, 1997 and 1996

(in millions of Canadian dollars)	1997	1996
OPERATING ACTIVITIES		
Earnings from continuing operations	$ 83	$ 66
Non-cash items:		
Depreciation and amortization	63	61
Deferred taxes	28	(5)
Site restoration and related obligations – net (note 10)	(10)	(7)
Increase in non-cash working capital and other	(33)	(40)
	131	75
Discontinued operations	-	8
	131	83
FINANCING ACTIVITIES		
Issue of convertible debentures (note 11)	163	-
Issue of common shares (note 12)	148	96
Repayments of long term debt and other obligations	(208)	(38)
Dividends	(43)	(39)
	60	19
Discontinued operations	-	(5)
	60	14
INVESTING ACTIVITIES		
Repayment of (advances to) Minera Alumbrera Limited (note 7)	78	(112)
Investment in Minera Alumbrera Limited (note 7)	(86)	(13)
Net capital expenditures	(255)	(77)
Proceeds from sale of investment	-	7
	(263)	(195)
Decrease in cash and equivalents during year	(72)	(98)
Cash and equivalents, beginning of year	216	314
Cash and equivalents, end of year (a)	$ 144	$ 216

(a) Cash and equivalents comprise cash and short term investments less current bank loans and overdrafts.

The accompanying notes are an integral part of these financial statements.

1. ACCOUNTING POLICIES

The consolidated financial statements of Rio Algom Limited (the "Company") are prepared in accordance with accounting principles generally accepted in Canada applied on a consistent basis. As described in note 16, these principles differ in certain material respects from principles and practices generally accepted in the United States.

The significant accounting policies followed by the Company and its subsidiaries are summarized below.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all significant subsidiary companies, where more than 50% of the voting shares are owned. All material inter-company balances and transactions are eliminated.

Investments in partnerships and joint ventures are accounted for by the proportionate consolidation method. Under this method, the Company includes in its accounts its proportionate share of the assets, liabilities, revenues and expenses. All material inter-company balances and transactions are eliminated.

Investments which are not partnerships and joint ventures but in which the Company owns 50% or less of the shares and over which it exercises significant influence are accounted for by the equity method. Under this method, the Company includes in its net earnings its share of the net earnings or losses of these associated companies.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are related to the physical and economic lives of mining assets, site restoration and related obligations, financial instruments and income taxes. Actual results could differ from those estimates.

Foreign Currency Translation

All of the Company's foreign operations are translated using the current rate method. Under this method, all assets and liabilities are translated at the year-end exchange rate and all revenue and expense items are translated at the average exchange rate for the year. Exchange gains and losses arising from the translation of foreign operations' balance sheets are included in the cumulative translation adjustment component of shareholders' equity. These adjustments are not included in earnings until realized through a reduction in the Company's net investment in such operations.

The US dollar denominated debt is accounted for as a hedge of the Company's net investment in the US and accordingly the effect of changes in the foreign exchange rate is charged or credited to the cumulative translation account.

Revenue Recognition and Product Inventories

Mining revenue is recognized upon production where contracts for sale exist. Concentrate and cathode inventories are recorded at estimated net realizable value, except in cases where there is no contract for sale, in which case they are recorded at the lower of cost and net realizable value. Net realizable value is based upon either contracted or current prices, less provision for possible adverse changes in commodity prices and foreign exchange rates.

Royalty revenue is recognized when earned under the respective agreements.

Metals distribution revenue is recognized when the product is shipped to the customer. Inventories of metals and supplies are valued at the lower of cost and market. Inventory cost is determined on the last-in, first-out basis for Vincent Metal Goods and on the average cost basis for Atlas Alloys. Market for metals is net realizable value and for supplies is replacement cost.

Hedging Transactions

In order to protect against the impact of declining metal prices, the Company periodically enters into option contracts. Costs of and revenues from the Company's hedging program are recorded in the same period as the related revenue from production is recognized.

Depreciation and Amortization

The Company charges depreciation and amortization on the following basis:

(i) Mining assets:

Fixed assets are depreciated on the basis of the shorter of physical life (straight-line method) or economic life as estimated for each mining unit (unit of production method). Economic life is adjusted from time to time as conditions warrant.

Mining properties are amortized over the estimated life of the mine on a unit of production basis.

(ii) Other fixed assets:

Fixed assets are depreciated using the straight-line method at the following rates:

Buildings	4% per annum
Plant machinery and equipment	6⅔% per annum

(iii) Goodwill is stated at cost less accumulated amortization. Amortization is provided on a straight-line basis over a period not exceeding twenty years.

Capitalization of Interest

Net interest costs are capitalized during construction or development phases on those projects for which funds have been borrowed; this would normally apply only to major new projects from the beginning of construction or development up to the commencement of commercial operations. In these cases interest earned on project funds during the development and construction period is applied against the interest expense to reduce the amount of interest costs capitalized.

Mineral Properties and Development

Exploration expenditures are charged to earnings in the year they are incurred except for expenditures on specified properties for which a pre-feasibility assessment has been completed, confirming measured and indicated resources with the potential of being developed into a mine, in which case the expenditures are capitalized.

Mine development costs incurred to maintain current production are included in operating costs. Mine development costs incurred to expand the capacity of operating mines, to develop new orebodies or to develop mine areas substantially in advance of current production are capitalized and charged to operations on a unit of

production basis related to the mineral reserves position. If it is determined that an investment in capitalized mine development or exploration is not recoverable over the productive life of the property, the unrecoverable portion is charged to earnings in the year such determination is made.

Pre-production Costs

Pre-production costs related to major projects are deferred until the facilities achieve commercial operation. These deferred costs are included in capital assets and amortized on a straight-line or unit of production basis over the estimated life of the mine.

Site Restoration and Related Obligations

Estimated site restoration and related obligations for each producing mine are charged to earnings over the expected economic life of each mine using the unit of production method. Provisions of a longer term nature are prepared on a discounted basis.

In determining expected costs, recoveries to be made at the time of shutdown are estimated and taken into account. The process of cost estimation is a continuous one, subject to changing laws and regulations, regulatory approvals, technology and other external factors which will be recognized when applicable.

Current expenditures relating to site restoration and related obligations at operating mines are charged to earnings as incurred. Expenditures pertaining to closed mines are charged to the applicable site restoration and related obligation provision.

Income and Mining Taxes

The Company follows deferred income tax accounting for timing differences in the recognition of revenues and expenses for income tax and financial reporting purposes. Investment tax credits are recorded using the cost reduction approach when there is reasonable assurance that the credits will be realized; these credits are deferred and amortized to income on the same basis as the related assets.

Pension Costs and Post-retirement Benefits

The Company maintains defined benefit pension plans and a defined contribution pension plan.

Pension costs and obligations for the defined benefit plan are determined using the projected benefit method of actuarial valuation prorated on the projected length of employee service. Pension surpluses and deficiencies, experience gains and losses and the effects of changes in plan assumptions are amortized on a straight-line basis over the expected average remaining service life of the relevant employee group. The cumulative difference between amounts expensed or credited to income and funding contributions is recorded on the balance sheet.

Pension costs under the defined contribution plan represent both the Company's core contributions based on a percentage of each participant's pensionable earnings and the Company's matching contributions based on a percentage of each participant's elective contributions. These costs are expensed when the contributions are made.

The Company provides certain healthcare and life insurance benefits for its retired employees and their dependants. The cost of these benefits is expensed as incurred.

2. DISCONTINUED OPERATIONS

(a) On June 30, 1996 the Stanleigh underground mine at Elliot Lake, Ontario ceased operations as a result of Ontario Hydro's decision in 1991 to terminate the uranium supply contract. This resulted in the closure of the Company's last operating mine in the region. In anticipation of this closure, the Elliot Lake operations were accounted for as discontinued operations in 1995. These operations consisted of the Stanleigh, Quirke and Panel, Pronto, Lacnor, Nordic, Buckles, Spanish American and Milliken underground uranium mines at Elliot Lake.

(b) The results of discontinued operations were as follows:

(in millions of Canadian dollars)	**1997**	1996
Revenue	$ -	$ 59
Cost of mine production	-	36
Selling, general and administration	-	11
Depreciation and amortization	-	6
Provision for taxes	-	2
	$ -	$ 55
Earnings from operations, post-measurement date	-	4
Adjustments to deferred income taxes and reclamation provision (see below)	-	30
Discontinued operations, net of tax	$ -	$ 34

In accordance with the contract, outstanding advances from Ontario Hydro were forgiven and the related Stanleigh assets, having an equivalent book value, written off in the fourth quarter of 1996. Provisions for deferred taxes in the amount of $70 million, previously charged in the accounts, were no longer required, and were reversed and reflected in the calculation of the gain from discontinued operations.

The Company regularly reviews its estimate of reclamation costs at all operations including discontinued operations. Estimated reclamation costs are determined in accordance with the Company's environmental policy, which includes consideration of current and proposed government regulations and policies. Primarily as a result of the federal government's decision to require relicensing of previously-closed Elliot Lake uranium mines and potential costs in respect of other discontinued mining operations, the Company recorded additional reclamation provisions of $60 million ($40 million net of tax) in determining the gain from discontinued operations in 1996.

3. PARTNERSHIP AND JOINT VENTURE

(a) The Company holds a 33.6% interest in Highland Valley Copper, a partnership with Cominco Ltd. (50%), Teck Company (11.4%) and Highmont Mining Company (5%). The Company and Cominco have equal control and management.

Highland Valley Copper holds and operates large-scale copper/molybdenum mining and milling operations in the Highland Valley area of British Columbia to produce copper and molybdenum in concentrates with gold and silver as by-products.

(b) The Company holds a 29.1% interest in Bullmoose, a joint venture with Teck Company (60.9%) and Nissho Iwai Coal Development (Canada) Ltd. (10%). The project, an open-pit coal mine and processing facility, is located in northeastern British Columbia.

Both of the above operations are accounted for using the proportionate consolidation method. The Company's share in the assets, liabilities, revenue, expenses and cash flow of the partnership and joint venture are as follows:

(in millions of Canadian dollars)	1997	1996
Revenue	$ 184	$ 169
Expenses	149	146
Earnings before taxes	$ 35	$ 23
Assets	$ 219	$ 246
Liabilities	33	34
Net investment	$ 186	$ 212
Cash inflow (outflow) from:		
Operating activities	$ 74	$ 39
Financing activities	(3)	(2)
Investing activities	(7)	(16)
Increase in cash	$ 64	$ 21

4. INVENTORIES

(in millions of Canadian dollars)	1997	1996
Mining operations		
Concentrates and cathode	$ 45	$ 31
Coal	3	7
Mine supplies	20	19
	68	57
Metals distribution operations	277	251
	$ 345	$ 308

Included in metals distribution operations in the United States are inventories valued on a LIFO basis at December 31, 1997 of $232 million (1996 – $211 million) which had a replacement cost of $237 million (1996 – $219 million).

5. PROPERTY, PLANT AND EQUIPMENT

(in millions of Canadian dollars)	1997	1996
Buildings, at cost	$ 130	$ 127
Less accumulated depreciation	45	41
	85	86
Plant machinery and equipment, at cost	624	540
Less accumulated depreciation	210	170
	414	370
Land, at cost	16	16
	$ 515	$ 472

6. MINING PROPERTIES

(in millions of Canadian dollars)	1997	1996
Mining properties, at cost	$ 593	$ 505
Less accumulated amortization	128	105
	$ 465	$ 400

Included in mining properties are costs associated with the Antamina, Crandon and Spence projects held for development having a book value of $97 million (1996 – $39 million).

7. INVESTMENT

Investment is carried on an equity basis.

(in millions of Canadian dollars)	Ownership	1997	1996
Minera Alumbrera Limited	25%		
- Equity (a)		$ 299	$ 270
- Long term shareholder loans (b)		57	-
		$ 356	$ 270

(a) Effective May 19, 1995 the Company acquired a 25% effective interest in Minera Alumbrera Limited which is developing the Bajo de la Alumbrera copper/gold deposit in northwest Argentina. The cost of the Company's 25% interest was $257 million. During the year the Company has contributed an additional $29 million (1996 – $13 million) in equity to the project.

(b) During the year, the Company also made shareholder loans of $57 million (US $41 million) to fund additional capital requirements of Minera Alumbrera Limited. These interest-bearing loans are of a longer-term nature and will be repaid from project cash flows as permitted. Consequently, these loans have been included as part of the Minera Alumbrera investment.

(c) At December 31, 1997, outstanding advances from Rio Algom to the project were $34 million (US $24 million) (1996 – $112 million, US $82 million), which were included in receivables and prepaid expenses. These advances are expected to be repaid from project financing drawdowns during 1998.

8. OTHER ASSETS

(in millions of Canadian dollars)	1997	1996
Goodwill and other, net of amortization	17	19
Pension (note 14)	13	13
	$ 30	$ 32

9. LONG TERM DEBT

(in millions of Canadian dollars)	1997	1996
Cerro Colorado loans (a)	$ -	$ 201
7.05% US dollar debentures due Nov. 1, 2005 (b)	215	206
Notes, housing loans and mortgages payable	1	1
	216	408
Less portion included in current liabilities	1	19
	$ 215	$ 389

(a) On April 30, 1997, the Company repaid the debt associated with the project financing of the Cerro Colorado project (US $147 million). Interest expensed during the year before the debt was repaid was $5 million (US $3 million).

The average interest rate on loans outstanding at December 31, 1996 was 7.23%. Other financing costs, consisting of commitment fees, agency and trustee fees and associated standby fees, amounted to 0.73% of the average outstanding on the loans during 1996.

(b) In November 1995 the Company issued US $150 million of unsecured 7.05% debentures due November 1, 2005. Costs associated with the issue of the debentures are being amortized over the term of the debt.

(c) Long term debt repayment requirements over the next five years amount to $1 million in 1998 and nil for the years 1999 to 2002.

10. SITE RESTORATION AND RELATED OBLIGATIONS

(in millions of Canadian dollars)	1997	1996
Current portion included in current liabilities	$ 20	$ 13
Non-current site restoration and related obligations	93	110
	$ 113	$ 123

During the year the Company spent $14 million (1996 – $14 million) on site restoration costs. In addition, $4 million (1996 – $64 million) was provided for future reclamation costs. The above provisions represent the Company's best estimate of its planned shutdown and restoration programs at producing, closed and discontinued mining operations, which it believes meet or exceed existing requirements. Future changes, if any, in requirements, laws and regulations and operating assumptions may be significant and will be recognized if and when applicable.

11. CONVERTIBLE DEBENTURES & EQUITY OFFERING

(a) On February 4, 1997 the Company arranged a $500 million financing. The financing comprised $353.4 million of 5.5% convertible redeemable subordinated debentures due Feb. 1, 2007 evidenced by instalment receipts, and 4,417,500 common shares. The company received $308 million, representing the net proceeds on the sale of shares and the first instalment on the convertible debentures. The second instalment on the convertible debentures of $176.7 million was received on February 4, 1998. The debentures are not redeemable prior to February 1, 2000. Between February 1, 2000 and February 1, 2002, provided the weighted average of the trading price of the Company's shares reaches certain levels, the Company may redeem the debentures at par plus accrued and unpaid interest for cash or common shares. After February 1, 2002 the Company may redeem the debentures at par for cash or common shares. Each debenture is convertible at the option of the holder into common shares at a price of $40 per common share.

(b) In view of the Company's right to redeem the debentures through the issuance of common shares, they are being accounted for as having both a debt and equity component in accordance with accounting standards of the Canadian Institute of Chartered Accountants. The liability element of $75 million as at December 31, 1997 represents the present value of interest payments discounted at the Company's normal borrowing rate until February 4, 2002. Interest expense is determined on the debt component. Each year a portion of the required semi-annual interest payment is applied as a reduction of the debt component. Interest expense for the year ended December 31, 1997 amounted to $5 million.

(c) The difference between the amount calculated as debt and the face value of the debentures is classified as equity, net of issue costs and taxes. The equity component of the debentures is increased over its five-year term to the full face value by charges to retained earnings. The increase in the carrying value of the equity component, or the equity accretion, is computed on an after-tax basis for the purpose of calculating earnings per share.

12. CAPITAL STOCK

	1997	1996	
Authorized:	**350,000**	350,000	First Preference Shares, issuable in series.
	14,109,659	14,109,659	Second Preference Shares, issuable in series.
	Unlimited	Unlimited	Common Shares.

Issued:

Common Shares	Number	Amount *(millions $ Cdn)*
Balance, December 31, 1995	52,067,193	$ 247
Issued in 1996 under share option plans	365,021	6
Warrants exercised for shares	3,553,590	89
Balance, December 31, 1996	55,985,804	$ 342
Issued in 1997 under share option plans	176,152	4
Issued in 1997 under equity offering	4,417,500	144
Balance December 31, 1997	60,579,456	$ 490

(a) In calculating the earnings per share, the net earnings of $83 million are reduced by the accretion of the equity element of the convertible debentures of $9 million.

Earnings per share are calculated using the weighted average number of common shares outstanding during the year of 60,101,674 (1996 – 55,154,284).

(b) The fully diluted earnings per share for continuing operations for 1997 of $1.20 (1996 – $1.18) and for net earnings for 1997 of $1.20 (1996 – $1.78) assumes that all the options outstanding at December 31, 1997 had been converted into common shares as of January 1, 1997.

(c) Dividends paid per common share were $0.70 in the year ended December 31, 1997 and $0.70 in the year ended December 31, 1996.

(d) Financial covenants exist under certain loan arrangements which, if breached would restrict the payment of common share dividends.

(e) A Shareholder Protection Rights Plan, which will be presented for renewal at the 1998 annual shareholders' meeting, exists whereby one right is issued for each common share of the Company. These rights remain attached to the shares and are not exercisable until the occurrence of certain designated events.

The rights become exercisable when a person or group acting jointly acquires 20% or more of the voting shares of the Company except with the approval of the Board of Directors or by a "Permitted Bid". A "Permitted Bid" is one made to all holders of voting shares for all voting shares outstanding on identical terms. The bid must be in compliance with applicable Canadian and United States securities laws and accepted by holders of more than 50% of the voting shares for which the bid is made. In the event the rights become exercisable, each right will allow shareholders other than the acquiring person or group to acquire common shares of the Company at 50% of the then current market price.

Share Option Plans

Outstanding share options on common shares at December 31, 1997 and 1996 under the various share option plans are as follows:

	1987 Plan		*1993 Plan*		*1993 Directors' Plan*		*1996 Directors' Plan*	
Share Option Plan	**1997**	1996	**1997**	1996	**1997**	1996	**1997**	1996
Number Outstanding	**128,800**	163,400	**1,701,421**	1,289,605	**193,000**	208,000	**195,757**	96,757
Range of exercise prices		$13.25 – $18.00		$18.00 – $36.30		$17.75 – $25.00		$25.75 – $34.60
Shares reserved		128,800		3,424,321		193,000		600,000

(a) The 1987 Share Option Plan and the 1993 Directors' Plan are now terminated except as to outstanding options which expire at various times up to 2002 and 2005 respectively.

(b) Options granted under the 1993 Share Option Plan generally have a term of 10 years and vest as to one third of the options granted on each of the first, second and third anniversaries of the date of the grant.

(c) Options granted under the 1996 Directors' Plan vest as to one-third of the options granted on each of the first, second and third anniversaries of the date of the grant. The Plan will terminate on June 21, 2001.

13. CUMULATIVE TRANSLATION ADJUSTMENT

(in millions of Canadian dollars)	1997	1996
Unrecognized translation gains, beginning of year	$ 31	$ 30
Increase in unrecognized translation gains	36	1
Unrecognized translation gains, end of year	$ 67	$ 31

The balance of $67 million at December 31, 1997 represents the cumulative unrecognized exchange gain on the Company's foreign assets. The change in the balance during the year reflects the impact of foreign currency fluctuations.

14. PENSION PLANS

Substantially all employees of the Company are participants in either a defined contribution or non-contributory defined benefit pension plan. The funds of each of the various defined benefit pension plans are administered by a corporate trustee or an insurance company. Benefits under the defined benefit plans are generally determined by years of service and employees' compensation, the latter being based on the three highest of the last ten years of employment, or a flat dollar benefit.

An actuarial valuation is performed at least triennially with intervening annual reassessments for substantially all defined benefit plans to determine the present value of the accrued pension benefits. Pension fund assets are carried at values determined by using a three-year average between book and market values.

The following data is based upon reports of independent actuarial consultants at December 31:

(in millions of Canadian dollars)	1997	1996
Market value of defined benefit pension fund assets	$ 312	$ 252
Less actuarial present value of projected benefit obligations	231	202
Total surplus	$ 81	$ 50
Unrecorded defined benefit plan surplus	$ 68	$ 37
Pension asset recognized on the consolidated balance sheet (note 8)	13	13
Total Surplus	$ 81	$ 50

Benefits from the defined contribution plan are based on the accumulated plan value, interest rates and type of life annuity chosen at date of annuity purchase.

The total pension expense amounted to $3 million in 1997 and $2 million in 1996. The components of the pension expense are as follows:

(in millions of Canadian dollars)	1997	1996
Defined benefit plan		
Current service cost	$ 6	$ 6
Interest cost on projected benefit obligations	16	14
Actual return on plans' assets	(33)	(21)
Net amortization and deferrals	14	3
	3	2
Defined contribution plan current year contributions	-	-
Pension expense	$ 3	$ 2

The interest rate used for determination of defined benefit plan benefits and return on assets exceeded the assumed annual rate of increase in compensation by 2.6% in each of 1997 and 1996. The unrecorded plan surplus is amortized on a straight-line basis over periods varying from 0.2 years to 17 years, depending on the pension plan demographics.

15. COMMITMENTS AND CONTINGENCIES

(a) The estimated capital cost at December 31, 1997 to complete the Company's Smith Ranch uranium project was US $16 million of which US $2 million was committed at that date. The estimated total cost to complete the Cerro Colorado expansion project as at December 31, 1997 was US $120 million (committed US $77 million). The estimated total cost to complete other capital projects as at December 31, 1997 was $26 million (committed $19 million).

(b) Total funding requirements of the Minera Alumbrera project, comprising capital costs, working capital and refundable value-added tax payments are expected to be approximately US $1.2 billion (before financing costs) of which US $1.1 billion was committed at December 31, 1997. The Company's share of remaining commitments amounts to US $25 million which is expected to be funded by a combination of project cash flow, project financing and additional shareholder loans.

Project financing negotiations with a consortium of international lenders were completed in February 1997 for Minera Alumbrera Limited. The facility comprises US $670 million of senior debt and Rio Algom has provided a several guarantee for 25% of that amount. As at December 31, 1997, US $567 million has been drawn under that facility. This guarantee will terminate upon satisfaction of completion tests and contains exclusions for certain political risks. In addition, Minera Alumbrera Limited has a VAT letter of credit for up to US $213 million of which the Company has unconditionally severally guaranteed 25%. The amount utilized at December 31, 1997 is US $162 million.

(c) The Company has guaranteed to the Nuclear Regulatory Commission in the US the amount of $34 million (US $24 million) on behalf of Rio Algom Mining Corp. and its wholly-owned subsidiary Quivira Mining Company for their decommissioning responsibilities.

(d) By September 1998 the Company and Inmet may elect to return the Antamina property to Centromin (an agency of the Peruvian government) or to proceed with development. If they elect to proceed with development, they have an investment commitment of US $2.5 billion in connection with the bid. If by September 6, 2001, the actual investment is less than the investment commitment, 30% of the shortfall would be payable by Compania Minera Antamina S.A. to Centromin in lieu of further expenditures. The Company and Inmet have jointly and severally guaranteed Compania Minera Antamina's obligations to Centromin.

(e) The Company has a committed, unsecured revolving credit facility of US $500 million with a maturity date of April 30, 2002. As at December 31, 1997, none of this facility was drawn down.

(f) The Company is committed to future minimum annual rental payments in the amount of $33 million under operating leases that expire from 1998 to 2008. Commitments are $9 million in 1998, $7 million in 1999, $5 million in 2000, $3 million in 2001 and $3 million in 2002.

(g) Potash Company of America, Inc. ("PCA"), a subsidiary of Rio Algom, and Rio Algom are defendants with other US and Canadian potash producers in a class action civil suit brought by direct potash purchasers in the United States in 1993. The plaintiffs allege the defendants violated various federal anti-trust laws, including the US Sherman Act, with respect to the sale of potash from 1987 to the present. The plaintiffs are claiming damages and other relief on behalf of themselves and certain classes of three direct-purchasers. Other substantially-identical suits have been brought by indirect potash purchasers in Illinois and in California. The California action against Rio Algom and PCA has been dismissed, and the Illinois action also has been dismissed, and the dismissal was affirmed on appeal. On January 2, 1997 the District Court in the direct-purchaser class action suit, consolidated in Minnesota, ordered that summary judgement be granted in favour of all defendants, including PCA and Rio Algom, and dismissed the plaintiffs' class action complaint. Plaintiffs have appealed the ruling to the Eighth Circuit Court of Appeals in respect of all defendants except Rio Algom Limited and oral argument was heard on November 17, 1997.

PCA believes these actions to be unfounded and is continuing to vigorously defend against them.

16. DIFFERENCES FROM UNITED STATES ACCOUNTING PRINCIPLES

Canadian GAAP varies in certain significant respects from the principles and practices generally accepted in the United States ("US GAAP"). The effect of these principal differences on the Company's statements of earnings and statements of changes in cash flow are quantified below and described in the accompanying notes:

(in millions of Canadian dollars)	1997	1996
Net earnings for the year reported under Canadian GAAP	$ 83	$ 100
Restatement of concentrate and cathode inventory awaiting shipment to lower of cost and net realizable value	-	(1)
Restatement of pension expense	(1)	-
Capitalized interest on deferred mine development costs (c)	21	18
Decrease (increase) in provision for post-retirement benefits (d)	1	(5)
Increase in interest expense (e)	(12)	-
Income tax adjustments on the above-noted items	(4)	(6)
Net earnings for the year reported under US GAAP	$ 88	$ 106
Earnings per share from continuing operations	$ 1.46	$ 1.30
Net earnings per share for the year	$ 1.46	$ 1.91

(a) US GAAP defines cash and equivalents to include cash and short term, highly-liquid investments with original maturities of three months or less and does not include current bank loans and overdrafts; whereas under Canadian GAAP, the Company defines cash and equivalents to include cash and short-term investments less current bank loans and overdrafts. As a result, the consolidated statements of cash flow under US GAAP would be as follows:

(in millions of Canadian dollars)	1997	1996
Cash and equivalents, US GAAP, beginning of year	$ 164	$ 288
Operating and investing activities' cash flow on a Canadian and US basis	(132)	(112)
Adjustments to financing activities under US GAAP		
Financing activities' cash flow under Canadian GAAP	60	14
Increase in short term investments	(10)	(34)
(Decrease) increase in current bank loans and overdrafts	(4)	8
Financing activities cash flow, US GAAP	46	(12)
Cash and equivalents, US GAAP, end of year	$ 78	$ 164

(b) Net change in non-cash working capital items related to operations:

(in millions of Canadian dollars)	1997	1996
Receivables and prepaid expenses	$ (17)	$ 4
Inventories	(26)	(5)
Accounts payable and accrued liabilities	11	29
Income and mining taxes payable	1	(40)
Other	9	(23)
	$ (22)	$ (35)
Interest paid	$ 34	$ 37
Income and mining taxes paid	$ 40	$ 94

(c) The Company capitalizes interest on a mine development project only if the interest arises on indebtedness incurred specifically to finance the project. Under US GAAP, a portion of all interest costs incurred must be capitalized as part of the project under development.

(d) Effective January 1, 1993 Statement of Financial Accounting Standards (SFAS) No. 106 – Post-Retirement Benefits was adopted in the preparation of the Company's financial statements under US GAAP. SFAS No. 106 requires the projected future cost of providing post-retirement benefits, such as health care and life insurance, to be recognized as an expense as employees render services instead of when such costs are paid. In 1993, the Company provided in full for the opening accumulated post-retirement obligation of $63 million ($38 million after tax). The cumulative effect on the Company was a reduction to retained earnings at December 31, 1997 of approximately $34 million after tax.

(e) The Company accounts for the convertible debentures in accordance with their substance and as such they are presented in the financial statements in their liability and equity component parts as described in note 11. Under US GAAP, the entire face value of the convertible debentures is treated as debt with interest expense based on the coupon rate of 5.5%.

(f) The Company's share options are measured using the intrinsic value-based method of accounting under which compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock.

(g) In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128 "Earnings per Share" effective for fiscal periods ending after December 15, 1997. The Company has applied this standard in these financial statements.

(h) The Company will be required to adopt SFAS No. 130, "Reporting for Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" for the year ending December 31, 1998. The Company will adopt the requirements at that time but has not yet made a determination of the effect on the financial statements.

17. DEPRECIATION AND AMORTIZATION

(in millions of Canadian dollars)	1997	1996
Plant machinery and equipment	$ 39	$ 38
Mining properties	22	21
Amortization of royalty asset and goodwill	2	2
	$ 63	$ 61

18. INTEREST EXPENSE

(in millions of Canadian dollars)	1997	1996
Interest on demand loans and other	$ 1	$ 5
Interest on long term debt	20	31
Interest on convertible debentures	5	-
	$ 26	$ 36

19. INCOME AND MINING TAXES

Earnings before taxes and discontinued operations consist of:

(in millions of Canadian dollars)	1997	1996
Canadian	$ 35	$ 23
Foreign	110	93
	$ 145	$ 116

Income and mining taxes consist of:

(in millions of Canadian dollars)	1997	1996
Current		
Canadian	$ 19	$ 46
Foreign	15	9
	34	55
Deferred		
Canadian	-	(33)
Foreign	28	28
	28	(5)
Total income and mining taxes	$ 62	$ 50

The timing differences giving rise to deferred taxes and their reversal principally relates to depreciation and amortization.

A reconciliation of the weighted average Canadian income taxes and rates and the effective income and mining taxes and rates is as follows (different rates of income tax apply to income from mining, manufacturing and other sources):

(in millions of Canadian dollars)	1997	1997 %	1996	1996 %
Weighted average Canadian income taxes and rates	$ 65	45.0	$ 52	44.8
Increase (decrease) resulting from:				
Resource deductions net of provincial mining taxes	3	2.3	1	0.8
Exempt dividends	(1)	(.3)	(1)	(0.5)
Tax free portion of investment income and gain on sale of investments	(2)	(1.2)	-	-
Foreign taxes	(5)	(3.9)	(5)	(4.2)
Other	2	1.1	3	2.1
Effective income and mining taxes and rates	$ 62	43.0	$ 50	43.0

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values for all financial instruments approximate fair values except for the following:

	1997	
(in millions of Canadian dollars)	**Carrying Value**	**Estimated Fair Value**
Derivatives		
Copper put options	$ 1	$ 8
Long-term debt		
7.05% US dollar debentures due November 1, 2005	$ 215	$ 218

Fair value for the derivatives and long term debt is based on market prices at December 31.

The carrying amount of cash and short term investments, accounts receivable, bank loans and overdrafts and accounts payable and accrued liabilities in the consolidated balance sheets approximate fair values due to the short term maturities of these instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

21. INDUSTRY AND GEOGRAPHIC SEGMENT DATA

The operations of the Company are grouped into industry and geographic segments.

Industry Segments

Mining

- Mining and processing of copper ore into cathode copper in Chile.
- Partnership interest in mining and milling of copper/molybdenum ore in Canada.
- In-situ leach uranium mine in the United States.
- 25% interest in a copper/gold mine in Argentina.
- Joint venture interest in mining and treatment of metallurgical coal in Canada.
- Royalty interest in a zinc/lead mine in Canada.
- Exploration through offices in North and South America and Ireland.
- Mining and milling of uranium in Canada (discontinued operations).
- Development projects in Chile, Peru and the United States.

Metals Distribution

- Distribution of stainless steel, aluminum and other metal products through service centres in Canada and the United States.

Revenue

(in millions of Canadian dollars)	1997	1996
Mining	$ 402	$ 355
Metals distribution	1,432	1,478
Consolidated	$ 1,834	$ 1,833

Revenue, in the table above, includes revenue from mine production and sales of metal products. All sales are to customers outside the Company.

Operating Profit

(in millions of Canadian dollars)	1997	1996
Mining	$ 126	$ 92
Metals distribution	76	78
Operating profit	202	170
Deduct:		
Exploration	26	14
Corporate expenses	29	22
Interest expense net of investment income	2	18
	57	54
Earnings before taxes and discontinued operations	$ 145	$ 116

Operating profit is revenue less applicable operating expenses including depreciation and amortization.

Identifiable Assets

(in millions of Canadian dollars)	1997	1996
Mining (a)	$ 1,606	$ 1,392
Metals distribution	552	563
Discontinued operations	17	22
Segment identifiable assets (b)	2,175	1,977
General corporate assets (b)	297	110
Total assets	$ 2,472	$ 2,087

(a) See note 3 for details of the Company's share of the partnership and joint venture assets and liabilities.

(b) Segment identifiable assets are those assets that are used in the operations of each segment. General corporate assets are principally cash and short term investments.

Depreciation and Amortization

(in millions of Canadian dollars)	1997	1996
Mining	$ 52	$ 51
Metals distribution	10	9
Segment depreciation and amortization expense	62	60
Corporate and exploration depreciation	1	1
Total depreciation and amortization expense	$ 63	$ 61

Capital Expenditures

(in millions of Canadian dollars)	1997	1996
Mining (a)	$ 220	$ 70
Metals distribution (a)	10	8
Segment capital expenditures	230	78
Corporate and exploration capital expenditures	29	-
Total capital expenditures	259	78
Less disposals	(4)	(1)
Total capital expenditures (net)	$ 255	$ 77

(a) Includes expenditures on construction in progress.

GEOGRAPHIC SEGMENTS

Revenue

(in millions of Canadian dollars)	1997	1996
Canada	$ 456	$ 415
United States	1,192	1,245
Chile	186	173
	$ 1,834	$ 1,833

Operating Profit

(in millions of Canadian dollars)	1997	1996
Canada	$ 56	$ 38
United States	64	64
Chile	82	68
	$ 202	$ 170

Identifiable Assets

(in millions of Canadian dollars)	1997	1996
Canada	$ 712	$ 533
United States	647	645
Chile	660	483
Argentina	351	268
Peru	50	19
Other countries	35	117
Discontinued operations	17	22
	$ 2,472	$ 2,087

OTHER DATA

Export sales from Canada

(in millions of Canadian dollars)	1997	1996
Japan	$ 127	$ 103
United States	27	19
Philippines	13	15
Europe	4	4
Other countries	21	41
	$ 192	$ 182

The above sales are to customers outside the Company.

Revenue by products sold

	1997	1996
Stainless steel	32 %	33%
Aluminum	23	23
Copper	17	15
Speciality steels	11	10
Carbon steel	7	7
Other products	10	12
	100 %	100%

22. SUBSEQUENT EVENT

Acquisition of 100% Ownership of Crandon Mining Company.

On January 23, 1998, the Company acquired the remaining 50% interest in the Crandon Mining Company, making the Company the sole owner of the Crandon Zinc Project in Wisconsin. The Crandon Mining Company has since been renamed the Nicolet Minerals Company.

Rio Algom Limited paid US $17.5 million on the closing of this transaction during 1998. A further US $5 million is payable 30 days after the Crandon Project commences commercial production. A net profits royalty of between 2¼% and 3¾%, depending on the zinc price, is also payable.

ELEVEN year review

EARNINGS *(millions of Canadian dollars)*	1997	1996	1995
Revenue	**$ 1,834**	$ 1,833	$ 1,982
Cost of mine production and metal sales	**1,386**	1,420	1,467
Selling, general and administration	**212**	204	229
Other income and interest expense	**2**	18	(6)
Depreciation and amortization	**63**	61	54
Exploration	**26**	14	9
	1,689	1,717	1,753
Earnings before taxes, minority interest and discontinued operations	**145**	116	229
Income and mining taxes	**62**	50	99
Earnings from continuing operations, before minority interest in subsidiary companies	**83**	66	130
Minority interest in net earnings of subsidiary companies	**-**	-	5
Earnings from continuing operations	**83**	66	125
Discontinued operations, net of tax	**-**	34	7
Earnings before extraordinary items	**83**	100	132
Extraordinary items	**-**	-	-
Net earnings	**$ 83**	$ 100	$ 132
PRODUCTION DATA *(millions except potash, coal and steel)*			
Cathode copper (pounds)	**133**	131	80
Copper in concentrate (pounds)*	**116**	110	117
Uranium in concentrate (pounds)	**0.3**	1.2	2.0
Molybdenum in concentrate (pounds)*	**1.5**	1.0	1.2
Potash (thousands of tons)	**-**	-	-
Coal (thousands of tonnes)*	**539**	544	538
Tin in concentrate (pounds)	**-**	-	-
Steel (thousands of tons)	**-**	-	-
*Rio Algom's share			
FINANCIAL DATA *(millions of Canadian dollars except per share data)*			
Per common share			
Net earnings	**$ 1.22**	$ 1.82	$ 2.55
Dividends	**0.70**	0.70	0.60
Equity	**22.38**	20.38	18.89
Working capital	**629**	553	498
Plant and equipment	**515**	472	462
Mining properties	**465**	400	391
Total assets	**2,472**	2,087	2,260
Return on average total assets	**3.2%**	4.6%	6.3 %
Redeemable preference shares	**-**	-	-
Long term debt	**291**	408	441
Advances from Ontario Hydro	**-**	-	247
Net capital expenditures	**255**	77	108
Common shareholders' equity	**1,356**	1,141	984
Return on average common shareholders' equity	**5.9%**	9.5%	14.0 %
OTHER DATA			
Common shares outstanding (millions)	**60.6**	56.0	52.1
Number of employees	**2,451**	2,337	2,765
Price range of common shares			
high	**$ 37.55**	$ 32.25	$ 29.63
low	**$ 23.75**	$ 23.38	$ 22.63

1994	1993	1992	1991	1990	1989	1988	1987
$ 1,109	$ 847	$ 795	$ 814	$ 953	$ 1,250	$ 1,535	$ 1,157
781	651	587	603	686	974	1,137	891
174	148	140	139	134	145	154	129
(10)	(36)	(9)	(12)	(45)	(34)	(20)	(21)
44	29	28	29	27	23	29	28
7	8	12	18	15	11	7	4
996	800	758	777	817	1,119	1,307	1,031
113	47	37	37	136	131	228	126
43	15	17	7	41	47	96	28
70	32	20	30	95	84	132	98
4	1	1	1	1	3	29	14
66	31	19	29	94	81	103	84
9	3	20	(4)	(7)	(33)	12	9
75	34	39	25	87	48	115	93
–	–	–	–	–	25	19	–
$ 75	$ 34	$ 39	$ 25	$ 87	$ 73	$ 134	$ 93
38	–	–	–	–	–	–	–
119	116	127	127	115	80	160	155
1.8	1.8	1.9	1.5	4.5	5.9	6.5	7.0
1.2	1.3	1.3	1.3	1.3	1.0	1.8	2.8
–	713	1,071	1,020	1,069	758	608	671
544	522	464	470	447	455	647	663
–	–	–	9.8	8.6	7.7	6.8	–
–	–	–	–	–	129	246	241
$ 1.48	$ 0.73	$ 0.85	$ 0.51	$ 1.93	$ 1.58	$ 3.02	$ 2.12
0.60	0.60	0.70	7.05	1.05	0.95	0.70	0.65
17.35	14.90	14.46	13.84	20.25	19.38	18.92	16.76
563	358	361	400	717	620	672	693
426	206	214	212	208	183	243	236
403	167	167	174	187	210	129	143
1,976	1,695	1,711	1,591	1,981	2,085	2,094	2,082
4.1%	1.9%	2.3%	1.3%	4.2%	3.3%	6.3%	4.4%
–	26	26	27	27	34	35	36
287	229	100	23	30	36	46	65
257	269	276	284	293	300	308	313
76	226	143	21	22	48	79	49
902	651	632	605	885	847	827	714
9.7%	5.0%	6.0%	3.0%	9.8%	8.2%	17.1%	13.2%
52.0	43.7	43.7	43.7	43.7	43.7	43.7	42.6
2,810	2,575	2,996	3,178	3,471	4,902	7,926	7,981
$ 27.13	$ 22.75	$ 18.50	$ 22.88	$ 22.88	$ 27.00	$ 25.00	$ 25.50
$ 21.00	$ 17.00	$ 15.13	$ 14.25	$ 16.00	$ 22.25	$ 18.25	$ 15.50

ELEVEN year review: relevant factors

- In January 1997, the company arranged a $500 million underwritten financing, comprising $353 million of convertible debentures and $147 million from the issuance of 4.4 million common shares. Net proceeds of $308 million were received in 1997, representing funds from the sale of shares and the first instalment of the debentures. The second and final instalment was received in February 1998.

- The Smith Ranch *in situ* uranium mine commenced commercial production in December 1997. It produced 65,000 pounds of uranium during the year.

- The Elliot Lake uranium operations, of which the last operating mine, Stanleigh, ceased operations effective June 30, 1996, are shown as discontinued operations. The Quirke and Panel uranium mines at Elliot Lake were closed in 1990.

- The company sold its 60.9% interest in Atlas Steels Limited of Australia in 1995.

- The Cerro Colorado mine commenced commercial production in June 1994. Proceeds from the production of 8.6 million pounds of cathode copper prior to that date were credited to the original capital cost of the project.

- The potash operations, which were acquired in 1986, were sold in October 1993 and are shown as discontinued operations.

- Copper and molybdenum production figures are not comparable because of the 1988 reorganization of Lornex Mining Corporation Ltd. and the 1991 conversion of a small royalty interest in the Highland Valley Copper partnership.

- The tin operations were closed down in 1992 and are shown as discontinued operations.

- A special dividend of $6.25 per common share was paid in 1991.

- The company adopted the CICA accounting policy for site restoration and related obligations prospectively from 1990.

- Steel manufacturing operations were sold in 1989.

CORPORATE governance

In 1994, the TSE Report on Corporate Governance recommended that the Toronto Stock Exchange adopt as a listing requirement that each listed company incorporated in Canada be required to disclose information relating to its system of corporate governance with reference to the guidelines set out in the TSE Report. Rio Algom supports these initiatives and is committed to maintaining a leadership role in the area of corporate governance.

Rio Algom's directors and management have responded to the need to establish forward-looking governance policies and to constantly evaluate and modify them to ensure their effectiveness. Rio Algom's disclosure is set out in the Management Information Circular relating to the company's April 22, 1998 Annual Meeting of Shareholders. This disclosure statement has been prepared by the Corporate Governance Committee of the Board and has been approved by the Board of Directors.

QUARTERLY financial data

		FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		YEAR
1997										
Revenue										
Mining operations	$	94	$	120	$	92	$	96	$	402
Metals distribution		350		372		363		347		1,432
		444		492		455		443		1,834
Operating profit										
Mining operations		32		51		24		19		126
Metals distribution		15		18		16		27		76
		47		69		40		46		202
Earnings from continuing operations	$	19	$	28	$	18	$	18	$	83
Earnings from discontinued operations		-		-		-		-		-
Net earnings	$	19	$	28	$	18	$	18	$	83
Net earnings per common share	$	0.29	$	0.43	$	0.25	$	0.25	$	1.22
1996										
Revenue										
Mining operations	$	92	$	92	$	85	$	86	$	355
Metals distribution		388		383		359		348		1,478
		480		475		444		434		1,833
Operating profit										
Mining operations		27		30		19		16		92
Metals distribution		21		18		18		21		78
		48		48		37		37		170
Earnings from continuing operations	$	21	$	19	$	14	$	12	$	66
Earnings from discontinued operations		2		1		-		31		34
Net earnings	$	23	$	20	$	14	$	43	$	100
Net earnings per common share	$	0.43	$	0.37	$	0.25	$	0.77	$	1.82

RIO ALGOM'S directors & executive officers

DIRECTORS

GORDON C. GRAY
Chairman of the Board
Rio Algom Limited
Toronto, Ontario

JAMES T. BLACK
Corporate Director
Niagara-on-the-Lake, Ontario

WILLIAM E. BRADFORD
Corporate Director
Dublin, Ireland

DEREK H. BURNEY
Chairman and Chief Executive Officer
Bell Canada International Inc.
Montreal, Quebec

PATRICK M. JAMES
President and Chief Executive Officer
Rio Algom Limited
Toronto, Ontario

DAVID S. R. LEIGHTON
Professor Emeritus
University of Western Ontario
London, Ontario

WILLIAM A. MACDONALD
President
William A. Macdonald Associates Inc.
Toronto, Ontario

ROSS J. TURNER
Chairman
Genstar Investment Corporation
San Francisco, California

JAMES D. WALLACE
President
Pioneer Construction Inc.
Sudbury, Ontario

MICHAEL H. WILSON
Chairman
Michael Wilson International Inc.
Toronto, Ontario

EXECUTIVE OFFICERS

PATRICK M. JAMES
President and Chief Executive Officer

DONALD A. CUMMING
Executive Vice-President, Mining Operations

JOHN A.H. BUSH
Vice-President, General Counsel & Secretary

COREY B. COPELAND
Vice-President, Corporate Affairs

C. KELLY O'CONNOR
Vice-President, Exploration

MICHAEL S. PARRETT
Vice-President and Chief Financial Officer

FERNANDO E. PORCILE
Vice-President, Engineering and Development

ULLI E. G. RATH
Vice-President, Corporate Development

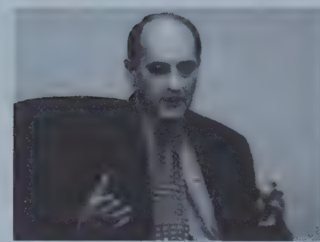
JOHN A. ROSS
Vice-President, Human Resources

NORMAN E. SMITH
Chairman,
North American Metals Distribution Group

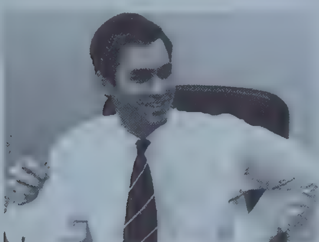
MAXINE A. WIBER
Vice-President, Environment

PATRICK M. JAMES

DONALD A. CUMMING



JOHN A.H. BUSH



COREY B. COPELAND

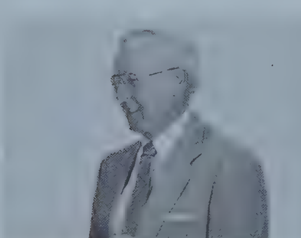
C. KELLY O'CONNOR

MICHAEL S. PARRETT

FERNANDO E. PORCILE

ULLI E. G. RATH

JOHN A. ROSS



NORMAN E. SMITH

MAXINE A. WIBER

GLOSSARY

BACKWARDATION

A market condition in which the cash or spot price stands at a premium over the price for delivery at a forward date, usually three months.

CASH COSTS

Costs from mining operations related to production, transportation, refining, marketing and administration. Cash costs do not include amortization and depreciation expenses.

CATHODE COPPER (ELECTROWINNING)

Refined copper which is produced at Cerro Colorado using the electrowinning process. In this process, copper contained in a sulphuric acid-copper sulphate solution is recovered in an electrolytic cell. Electric current flows between a lead anode and a stainless steel cathode, plating the copper out onto the cathode. The resulting product is more than 99% pure.

COMMERCIAL PRODUCTION

The point at which a project is considered to have reached sustainable levels of production. After this point, revenue is recorded in earnings, and costs, including interest, are expensed as opposed to being capitalized.

CONCENTRATE

A product of the milling process containing the valuable metal from which most of the waste rock has been eliminated. It is the raw material for smelting.

FEASIBILITY STUDY

A study to determine the viability of placing a mining property into commercial production at an acceptable rate of return.

FIVE-YEAR AVERAGE GROWTH

This measure is determined by adding the change from the previous year, in dollars, for the last five years (1993 through 1997), and dividing by the total values for 1992 to 1996.

FLOTATION

A milling process in which some mineral particles are induced, by the introduction of specific reagents, to become attached to bubbles and float, while others sink, thus concentrating the valuable minerals and separating them from the worthless gangue.

GRADE

The percentage of valuable metal or mineral in rock.

HEDGING

The use of financial instruments to effectively offset price or exchange-rate risk inherent in a company's operations.

IN SITU URANIUM LEACHING

A process involving pumping an environmentally benign solution of water and sodium bicarbonate down an injection well where it flows through the deposit, dissolving uranium. The uranium-bearing solution is pumped to the surface where the uranium is recovered from the solution. *In situ* leaching generally has lower capital and operating costs because it not only replaces more capital intensive mining techniques, but also bypasses a large portion of the traditional milling process. It also has lower environmental impact than traditional methods.

LEACHING

The process by which a soluble mineral can be economically recovered from ore by dissolution.

LEACH PADS

As used at Cerro Colorado, leach pads are polyethylene-lined surfaces, each about half a square kilometre in area, on which approximately 350,000 tonnes of finely crushed ore are placed. The ore is treated for a period of approximately one year with a weak acid solution which, with the assistance of natural bacterial activity, leaches the copper from the ore.

LOST-TIME ACCIDENT FREQUENCY

A lost-time accident is one in which an employee misses a day or more of work because of an injury. The average lost-time accident frequency rate is the number of such accidents for every 200,000 hours worked. Rio Algom measures this rate for employees of all operations in which it has at least 50% ownership.

MATCHED-SALE CONTRACTS

Contracts, requiring the approval of the US Department of Commerce, which are intended to restrict the sale of Russian uranium in the United States until the year 2004. Under these contracts, Russian source material can only be sold if such sales are matched by the sale of an equivalent amount of US-produced material.

ORE

Rock containing metallic or non-metallic minerals that can be mined, processed and sold at a profit.

OXIDE

A mineral which has been oxidized. Oxidation tends to make minerals more readily soluble in acid.

PORPHYRY

Generally a body of intrusive rock containing relatively large crystals in a fine-grained groundmass. Often associated with large tonnage copper deposits which are amenable to open pit mining.

PROJECT FINANCING

A method of financing in which the lenders' primary recourse, following agreed upon events of completion, is to the cash flow and assets of the project and not to the project sponsor. Project financing arrangements often contain exclusions for certain political risks, including those covered by political-risk insurance.

RECLAMATION

The process by which land disturbed as a result of mining activity is reclaimed for beneficial use. Reclamation activity includes the removal of buildings, equipment, machinery and other physical remnants of mining, closure of tailings impoundments, leach pads and other mine features, and contouring, covering and revegetating waste rock piles and other disturbed areas.

RESERVES

The tonnage and grade of ore, classified according to the level of confidence that can be placed in the data. Proven reserves have been sampled extensively by closely spaced drill holes or developed by underground workings in sufficient detail to obtain a high level of confidence in the estimate of grade and tonnage; probable reserves cannot be estimated with the same degree of confidence because they have not been sampled in the same detail. Reserves, as used by Rio Algom in this report, only include proven and probable reserves.

RESOURCES

The calculated amount of material in a mineral deposit, but without sufficient geological, technical or economic certainty that it can be profitably extracted to qualify as a reserve.

RETURN ON CAPITAL EMPLOYED

Operating profit divided by average monthly capital on a 12-month rolling basis.

SOLVENT EXTRACTION

As applied at Cerro Colorado, the use of an organic solvent to remove copper from the solution which results from leaching.

SPOT MARKET PRICE

The price of a metal for immediate delivery.

TAILINGS

The residue from an ore processing plant after all economically recoverable minerals in the ore have been extracted.

OPERATING locations

MINING

COPPER

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METALS DISTRIBUTION

NORTH AMERICAN METALS DISTRIBUTION GROUP

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Chairman
North American Metals
Distribution Group

HARRISON P. JONES
Executive Vice-President and Chief Operating Officer
Vincent Metal Goods

North American Metals
Distribution Group
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Fax: (416) 621-5654

SHAREHOLDER information

STOCK EXCHANGE LISTINGS

Common Shares (symbol ROM)
Toronto, Montreal, American
Instalment Receipts - Debentures (symbol ROM.DB)
Toronto, Montreal

REGISTRARS AND TRANSFER AGENTS

The Montreal Trust Company of Canada
Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver

The Bank of Nova Scotia Trust Company of New York
New York, N.Y.

SHAREHOLDER INQUIRIES

Inquiries with respect to dividend payments, lost dividend cheques, changes of address or registration, lost share certificates and tax forms should be directed to the Stock Transfer Department of Montreal Trust at any of the cities noted, or to the following:

The Bank of Nova Scotia Trust
Company of New York
One Liberty Plaza
New York, NY 1006
Telephone: (212) 225-5427
Fax: (212) 225-5436

Stock Transfer Department
Montreal Trust
151 Front Street West
Toronto, Ontario M5J 2N1
Telephone: (416) 981-9500
Fax: (416) 981-9800

INVESTOR RELATIONS

For information about Rio Algom and copies of the annual and quarterly reports and other corporate publications, contact:

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e-mail: corpcomm@rioalgom.com

DIVIDENDS

In recent years, Rio Algom has paid common share dividends on a semi-annual basis. The payments of such dividends in future years must necessarily be determined by the Board of Directors of the Company in light of future earnings, financial requirements and other relevant factors. The Company's ability to pay future dividends may, in certain circumstances, also be affected by covenants contained in the Company's syndicated line of credit agreements. At current and projected operating and economic levels, these are not expected to prevent the payment of normal cash dividends.

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of Rio Algom Limited will be held on Wednesday, April 22, 1998, at 10:30 a.m. (Toronto time) in the Ballroom, Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada.

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